DOCUMENT RESUME

ED 238 739 SO 014 654

AUTHOR Heyne, Paul; Stevahn, Laurie
TITLE Choices in the Marketplace: A Basic Unit on Consumer Economics.
INSTITUTION Washington Office of the State Superintendent of Public Instruction, Olympia.; Washington State Council on Economic Education, Olympia.
PUB DATE 82
NOTE 138p.; Paper presented at the Annual Meeting of the Joint Council on Economic Education (Kansas City, MO, October, 1982).
PUB TYPE Guides - Classroom Use - Guides (For Teachers) (052) -- Speeches/Conference Papers (150)

EDRS PRICE MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS Concept Teaching; *Consumer Economics; *Consumer Education; *Decision Making; Economic Factors; *Economics Education; Instructional Materials; Learning Activities; Resources; Secondary Education; Units of Study
IDENTIFIERS Business and Society; Interdependence; Supply and Demand

ABSTRACT

Consumer decision-making and its consequences for individual consumers and societal groups are examined in this economic unit for secondary school students. Seven lessons focus on developing an understanding of the concepts of scarcity, supply and demand, resources, choice, price, and interdependence and on fostering an economic way of thinking. In each lesson, a short lecture precedes several activities which draw on student classroom behavior to illustrate basic economic concepts. Two optional lectures discuss the costs and benefits of product improvement and consumer protection laws. A comprehension test, test answer sheet, test item analysis, and teacher background readings for each lesson are provided in the appendix. (LP)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

BEST COPY AVAILABLE

[illegible]

[illegible]

A BASIC UNIT ON [illegible]

ED238739

U.S. DEPARTMENT OF EDUCATION
NATIONAL INSTITUTE OF EDUCATION
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

☐ This document has been reproduced as received from the person or organization originating it.

☑ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official NIE position or policy.

"PERMISSION TO REPRODUCE THIS MATERIAL IN MICROFICHE ONLY HAS BEEN GRANTED BY

Kenneth E. Leonard

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

by

Dr. Paul Heyne
Professor of Economics
University of Washington

and

Laurie Stowin
Secondary Teacher
Snohomish, Washington

SP 019 457

Paper presented at the Annual Meeting of the Joint Council on Economic Education (Ocean City, MD, October, 1982).

Washington State Council on Economic Education
1982

BEST COPY AVAILABLE

CHOICES IN THE MARKETPLACE

PREPARED BY THE WASHINGTON STATE COUNCIL

ON ECONOMIC EDUCATION

—

KENNETH E. LEONARD, EXECUTIVE DIRECTOR

DONALD R. WENTWORTH, PROGRAM DIRECTOR

IN COOPERATION WITH

DR. FRANK B. BROUILLET
State Superintendent
of Public Instruction

BRUCE BRENNAN
Assistant Superintendent
Division of Vocational-Technical
and Adult Educational Services

JAY WOOD
Administrator
Program Development Section

NANCY JOHNSON
Director
Home and Family Life Education

1982

Other Economic Education units available from the Washington State Council on Economic Education:

ELEMENTARY

The Book Company

This unit integrates basic skills with economics. The lessons revolve around the activity of writing, producing, and selling a classroom book.

Classroom Marketplace

Invention of a classroom currency is the first step students take in creating their classroom economy. Lessons arise from operation of the marketplace where students choose to produce and consume goods and services.

SECONDARY

In the Marketplace

A basic overview of the American economy is provided by this unit. Activities include "The Big Apple" (a buying and selling market activity), a home and community survey, and a simulation of negotiations between labor and management.

Trees & TV's in the International Marketplace

Designed as a special supplement to the Pacific Northwest History curriculum, this unit introduces students to the issues and results of international trade. Students discover how trade affects individual consumers' decisions as well as decisions, policies and activities of entire nations and blocs of countries.

Crises in the Marketplace

Three time periods in U.S. History are highlighted in the unit: the 1890's through early 1900's, the 1930's, and the early 1970's. Students are asked to use an economic perspective to analyze what happened when the marketplace did not optimize consumer or producer alternatives.

Energy Tradeoffs in the Marketplace

Through simulations, discussion and research, students become acquainted with the complex nuances of the energy issue. Students explore the effects that economics and human values have on energy production and consumption.

INTRODUCTION

This unit investigates consumer decision-making and its consequences on individual consumers and social groups. There are four major themes to this unit:

1. Why must consumers choose?

2. What criteria should consumers use in making choices?

3. What are the results of consumer choices?

4. How do individual consumer choices influence other people?

As students investigate these themes, they are encouraged to use an ECONOMIC WAY OF THINKING to establish the criteria with which to judge consumer behavior. By using this perspective, students can investigate a variety of topics, issues and problems to discover common themes and generalizations which help explain the conflicting behaviors exhibited by people in the marketplace. In this manner, students can transcend "smart shopping formulas" to develop criteria to assess and predict consumer behavior. THE ECONOMIC WAY OF THINKING is explained throughout the unit, but a quick capsule summary of it includes the following five assumptions:

1. All consumer decisions involve both costs and benefits.

2. Prices serve to ration products and provide information. They are more than just a barrier to purchasing.

3. An item's price is determined by its alternative uses, not by the physical value of the materials used to make the product.

4. Personal satisfaction criteria should be used to evaluate consumer choices.

5. Individual buying habits influence the employment and income of other people.

This teaching unit is divided into two sections: teacher readings and instructional materials.

The instructional materials section is composed of seven lessons. Each lesson contains Dr. Heyne's lecture material and demonstration lessons written by Laurie Stevahn of Snohomish High School. The lecture materials are drawn from the teacher reading but edited and reorganized to serve as the content focus for each lesson. The demonstration activities provide opportunities to use student classroom behavior to illustrate the important ideas discussed in the lectures. This combination of lecture material and active student involvement in the learning process is designed to maximize student interest and learning in the subject.

This unit was prepared and pilot-tested under the supervision of the Washington State Council on Economic Education. Eighteen teachers from a variety of schools and grade levels in the state of Washington, seventeen of which represented Vocational Home and Family Life Education, provided invaluable assistance by pilot-testing this unit in the Fall of 1981. Their evaluations and recommendations contributed to the final edition of this unit. The pilot-test teachers were:

Kathy Lobe
North Central High School
Spokane, Washington

Diane Floyd
Rogers High School
Spokane, Washington

Marvel Miller
Rogers High School
Spokane, Washington

Lou Huber
Roosevelt Middle School
Port Angeles, Washington

Marilyn Martin
Tenino High School
Tenino, Washington

Marjorie Whitehead
Cascade High School
Everett, Washington

Emily Stevenson
Ellensburg High School
Ellensburg, Washington

Frances Postma
Lakes High School
Tacoma, Washington

Roberta Krause
Hyak Junior High School
Bellevue, Washington

Nancy Giller Branchflower
Stanwood High School
Stanwood, Washington

Nancy Wells
Shelton High School
Shelton, Washington

Joan Northfield
Nathan Hale High School
Seattle, Washington

Marty Albee
Wm. Winlock Miller High School
Olympia, Washington

Jaime Woodard
R. A. Long High School
Longview, Washington

Patricia Brackinreed-Bouchard
Ferndale High School
Ferndale, Washington

Cora Mae McMurry
Woodway High School
Edmonds, Washington

Kathy Willson
Cascade Junior High School
Auburn, Washington

Kathleen Westergard
Adna High School
Adna, Washington

BEFORE YOU TEACH . . .

The primary assumption of this unit is that consumer competence requires understanding of economics. Four basic economic concepts are identified as critical to help consumers understand the American economy. They are: scarcity, supply, demand, and price.

To achieve student understanding of the basic concepts, this unit focuses on consumer decison-making and its consequences--to individual consumers and the people affected by consumer choices. It encourages students to develop an Economic Way of Thinking as they investigate consumer behavior so students realize that:

1) any consumer purchase involves both costs and benefits.
2) prices are an information and rationing system--not just a barrier to purchasing.
3) an item's worth (price) is determined by its alternative uses--not by the physical value of the materials used to make the product.
4) consumer choices can be evaluated according to personal satisfaction criteria and need not be guided by artificial rules of income percentage or the "quality" of materials.
5) personal buying habits have an impact on the employment and income of other people.

In the pilot test teachers passed along some helpful hints which are included in the next paragraphs. Please use this space to develop your own checklist of teaching aids.

1) Each lesson has a short lecture to explain the economic concepts for the lesson. Some examples may appear repetitive, but each has a different perspective.

2) Early on, prepare for the simulation in lesson six by reading directions carefully and preparing the buyer and seller cards.

3) In order to save paper, consider putting the shorter length student worksheets on overhead transparencies so students may copy them, or write the worksheet on the chalkboard.

4) The final comprehension test should be used also as a pre-test.

5) Test items marked with an asterisk measure concepts taught in the last two lectures. Those lectures have no demonstration lessons to accompany them. If you choose not to use the lectures, those final questions should be eliminated.

6) Each lesson assumes a class period of 50 minutes. You may have to adjust the lessons if your circumstances are different.

7) Consult the matrices which follow so you understand the order in which the concepts and skills are taught in this unit.

8) <u>The unit is color coded</u>:

COLORED pages - instructions for the teacher or teacher material

WHITE pages - materials to be reproduced either for the pupils or transparencies

TABLE OF CONTENTS

Lesson		Page
LESSON ONE	It's a Matter of Choice	1
LESSON TWO	Giving & Taking - Choosing & Refusing	11
LESSON THREE	It May Cost More Than You Think	27
LESSON FOUR	Who Gets What For How Much	37
LESSON FIVE	Allocating Goods & Services in the Marketplace	45
LESSON SIX	Suppliers & Consumers Depend on Each Other	59
LESSON SEVEN	Acquiring Information - Is It Worth It	91

OPTIONAL LECTURES:

A.	Costs & Benefits of Quality Improvements	105
B.	Costs & Benefits of Consumer Protection Laws	109

APPENDIX	113
Comprehension Test	115
Test Answer Sheet	127
Test Item Analysis Sheet	131
Teacher Readings	133

CHOICES IN THE MARKETPLACE
Skill Matrix

7	6	5	4	3	2	1	LESSON # / SKILLS
X		X				X	COMPARING & CONTRASTING
	X						COLLECTING INFORMATION
X	X	X	X	X	X	X	NOTE TAKING
	X						PREDICTING OUTCOMES
X			X			X	TRANSFERRING KNOWLEDGE TO NEW PROBLEMS
		X			X		SMALL GROUP DISCUSSION
	X		X	X	X	X	MAKING GENERALIZATIONS
				X			LISTENING SKILLS
			X				INTERPRET CARTOONS
X							CHOOSING AMONG ALTERNATIVES

CHOICES IN THE MARKETPLACE
Concept Matrix

7	6	5	4	3	2	1	CONTENT
						X	CONSUMER
	X			X	X	X	CHOICE
X						X	RESOURCE
X		X	X	X	X	X	SCARCITY
					X	X	ECONOMIZE
					X		SUBSTITUTE
			X		X		SATISFACTION
X				X			OPPORTUNITY COST
	X	X	X				PRICE
		X	X				VALUE
		X					ALLOCATION (RATION)
	X						INCENTIVE
	X						DEMAND
	X						SUPPLY
	X						SURPLUS
	X						SHORTAGE
	X						INTERDEPENDENCE
X							RISK
X							IMPULSE BUYING

LESSON #1 - IT'S A MATTER OF CHOICE

PROCEDURES: Note-Writing
Listening & Comparing Exercise
Lecture
Purchasing Demonstration
Focus Questions

TIME: 50 minutes

MAJOR CONCEPTS: Consumer
Choice
Resources
Scarcity
Economizing

GOALS: The student will be able to . . .

1. explain each major concept in his/her own words.

2. create an example for each concept.

ECONOMIC GENERALIZATIONS IN THIS LESSON:

1) All consumers face the scarcity problem because their limited budgets prevent them from purchasing all of the products and services they want to purchase.

2) Scarcity forces consumers to choose among alternatives to gain economic satisfaction.

MATERIALS:
1. IT'S A MATTER OF CHOICE outline for writing notes (one per student.
2. Price tags (place on appropriate objects in the classroom before class begins).
3. $10.00 bill.
4. Chalkboard

DIRECTIONS:

1) a. TODAY WE ARE GOING TO ANALYZE HOW SCARCITY INFLUENCES YOUR BEHAVIOR.

b. HOW MANY DECISIONS DO YOU MAKE EACH DAY
HOW MANY DECISIONS HAVE YOU MADE TODAY?

(Allow think time. Survey several students for responses.)

c. WHAT KINDS OF DECISIONS DO YOU MAKE EACH DAY?
WHAT KINDS OF DECISIONS HAVE YOU MADE TODAY?

[Student responses may include making decisions about what to wear, what to have for breakfast, how to get to school, what to buy for lunch, what to do with extra spending money, whether or not to go to a movie, which movie to see, etc.]

d. Emphasize: PEOPLE HAVE MANY DECISIONS EVERY DAY.

e. FOR THE NEXT WEEK YOU WILL LEARN ABOUT YOUR ROLE AS A DECISION-MAKER IN THE MARKETPLACE.

2) a. Distribute IT'S A MATTER OF CHOICE outline for writing notes.

b. Explain the purpose for taking notes.

[Example: WRITING NOTES HELPS YOU PRACTICE THE SKILL OF GATHERING INFORMATION. THIS SKILL ALONG WITH THE INFORMATION YOU GATHER WILL HELP YOU SUPPORT DECISIONS THAT YOU WILL BE ASKED TO MAKE.]

c. Give directions for writing notes.

[Example: TO UNDERSTAND HOW YOU MAKE DECISIONS IN THE MARKETPLACE, YOU MUST UNDERSTAND THE MEANING OF SOME NEW TERMS. WRITE NOTES ON EACH TERM WHEN IT IS DISCUSSED DURING THE LESSON SO THAT YOU WILL BE ABLE TO DEFINE AND EXPLAIN EACH TERM AT THE END OF THE LESSON.]

3) TO HELP YOU THINK ABOUT YOURSELF AS A DECISION-MAKER IN THE MARKETPLACE, I AM GOING TO DESCRIBE THREE SITUATIONS. LISTEN CAREFULLY AND PICTURE YOURSELF IN EACH SITUATION.

[Direct students to take brief notes on each situation in the space provided on the outline. Have them identify any similarities among the three situations. Read each situation.]

Situation # 1

This weekend you want to buy a new record album that costs $6.98. You and your friends have also been wanting to see a movie which costs $5.00 per person. After doing odd jobs all week to earn some money, you find that the total amount of cash you have is only $10.00.

Situation # 2

You are having a great time vacationing at Disneyland. It's nearing the end of the day, but you would still like to catch a ride on the Matterhorn bobsleds, the Mark Twain riverboat, and the racing cars. However, you find that you just have two ride tickets left.

Situation # 3

You have a peanut butter and jelly sandwich and two Twinkies in your lunch. You really don't like peanut butter and jelly sandwiches. One of your friends offers you her steak sandwich for your Twinkies. Another friend overhears the offer and tells you that he will give you his tunafish sandwich and an apple for the Twinkies.

[Allow students 2 or 3 minutes to record similarities in the space provided on the outline.]

4) Ask several students to state the similarities they listed.

   Student responses may include:
   Each situation deals with choosing between wants (making decisions).
   Each situation deals with limited means (ability or resources) to get wants.

5) Emphasize: AS A CONSUMER (ONE WHO BUYS GOODS AND SERVICES IN THE MARKETPLACE), YOU MUST MAKE CHOICES BECAUSE RESOURCES (THINGS THAT HELP YOU GET WHAT YOU VALUE) ARE LIMITED: LIMITED RESOURCES FORCE CHOICES.

6) a. Briefly go back to the three situations just discussed. Have students identify resources and wants in each situation - and speculate a possible choice that could be made.

   b. Emphasize: IN EACH CASE WANTS ARE GREATER THAN RESOURCES.

7) Define scarcity for students.
SCARCITY MEANS THAT RESOURCES ARE LIMITED BUT WANTS ARE UNLIMITED. THEREFORE, SCARCITY FORCES CHOICE.

8) Define economize for students.
ECONOMIZING MEANS MAKING CHOICES BETWEEN ALTERNATIVES - FOR THE GREATEST SATISFACTION ECONOMIZING DOES NOT MEAN CUTTING BACK OR CONSERVING.

9) CONDUCT LECTURE.

10) READ THE DEFINITION OF ECONOMIZE AGAIN.

11) I AM GOING TO HAVE A STUDENT MAKE A PURCHASE HERE IN CLASS. WATCH CAREFULLY AND TAKE NOTES ON WHAT HAPPENS.

   a. Call one student to the front of the classroom and give him/her $10.00 (using real money immediately captures attention!).

   b. Tell the student that he/she may purchase anything in the classroom that has a price tag attached to it.

   c. Point out all items and prices so that all class members may follow.

   d. Allow the student one minute to make a choice and then ask the student to state his/her decision.

12) Focus Questions

   i. Was the student economizing? Why or why not?

ii. What did the student do that fit the definition of economize?

iii. What did the student do that did not fit the definition of economize?

iv. Direct this question to the student demonstrator:
Why did you choose the items you selected?

v. Direct this question to the class:
What items would you have purchased if I had given you $10.00?
Why?

13) Emphasize: SCARCITY FORCES CHOICE BETWEEN ALTERNATIVES FOR THE GREATEST SATISFACTION.

14) Closure: a. ON THE BACK OF YOUR PAPER, WRITE THE NEW TERMS THAT WERE DISCUSSED.

b. WITHOUT LOOKING AT YOUR NOTES, DEFINE EACH NEW TERM IN YOUR OWN WORDS

c. AFTER FINISHING, CHECK YOUR DEFINITION WITH YOUR NOTES.

LESSON # 1 - LECTURE OUTLINE

Why Must You Choose?

I. What does "economize" mean?

II. All consumers face the problem of scarce resources.

III. How do consumers economize?

LECTURE NARRATIVE: WHY MUST YOU CHOOSE?

What to buy? How much to save? Where to get a job? How to find enough time and money to enjoy life? These questions confront everyone each day. In the process of making these decisions, we are economizing. Everyone economizes, because everyone must come to terms with scarce resources.

What does the phrase "to economize" mean and exactly what is a scarce resource? Very simply, to economize is to choose which goods and services to obtain with your limited resources. It does not necessarily mean to cut back, conserve, or go without things. And a scarce resource is anything which helps us gain satisfaction but is limited in its availability.

That statement may sound abstract, but it is the stuff of everyday life. Imagine you see a record you would like to have, selling for $8. Will you buy it? Not immediately, because suddenly you have a problem, a scarcity problem in the form of the limited money (scarce resource) available to you. If you buy the record, you may have to postpone the purchase of some new jeans that you also want. Suddenly you are facing an ECONOMIZING QUESTION: Will your scarce dollars (resources) yield you more satisfaction by purchasing a record or by being set aside to help buy a new pair of jeans? Whatever option is chosen, you will gain something you value as well as lose something you value.

IT'S A MATTER OF CHOICE

Terms & Definitions

1. consumer
2. choice
3. resources
4. scarcity
5. economize
6. alternatives

Situation # 1

Similarities

Situation # 2

Situation # 3

Notes on Purchasing Demonstration

LESSON # 2 - GIVING & TAKING - CHOOSING & REFUSING

PROCEDURES: Lecture
Purchasing Activity (Small Group Work)
Focus Questions

TIME: 50 minutes

MAJOR CONCEPTS: Scarcity
Choice
Substitutes
Satisfaction

GOALS: The student will be able to . . .

1. explain each major concept in his/her own words.

2. create an example for each concept.

3. explain how personal satisfaction and price influence decision-making in the marketplace.

ECONOMIC GENERALIZATIONS IN THIS LESSON:

1) Substitutes exist for nearly all products and services and provide alternative ways for consumers to gain economic satisfaction.

2) Consumers try to gain the greatest individual satisfaction possible by purchasing products and services in the marketplace.

3) Satisfaction is individually determined by consumers and varies from individual to individual.

4) One person's criteria for wise consumer purchases are not always appropriate for judging another person's actions in the marketplace.

MATERIALS:
1. CHOOSING IN THE MARKETPLACE crossword puzzle -OPTIONAL- (one per student)
2. GIVING & TAKING - CHOOSING & REFUSING budget sheets (two per student).
3. Grocery advertisements from a newspaper (6-10 copies of the same advertisements).
4. Chalkboard.

DIRECTIONS:

1) a. IN THE PREVIOUS LESSON YOU BEGAN TO EXPLORE YOUR ROLE AS A DECISION-MAKER IN THE MARKETPLACE.

(Optional Activity)

2) a. Distribute the crossword puzzle CHOOSING IN THE MARKETPLACE to allow students to quickly review new terms. Allow 5 minutes.

b. Orally review answers and definitions.

3) CONDUCT LECTURE.

4 NOW IT'S YOUR TURN TO CHOOSE IN THE MARKETPLACE.

a. Divide students into groups of 3-5 people. Distribute the same newspaper grocery advertisements to each group.

b. Distribute one GIVING & TAKING - CHOOSING & REFUSING budget sheet to each student.

c. Tell students that they are consumers in the marketplace and will have $10.00 with which to buy food for one day.

d. Individually, students will purchase food items they want in the advertisements.

e. Tell students to write the name of the product and the price in the appropriate rows and columns on the budget sheet.

f. Students must stay within the $10.00 budget per individual.

g. Allow 5 minutes.

5) Ask several students to read aloud the list of products they chose. Tell class members to compare their own lists to the lists that will be read.

6) Focus Questions

a. Did anyone choose the same list of products as the students who read their lists?

b. Ask one of the students who read his/her list aloud:
Why did you choose the items on your list?

(Record responses on chalkboard)

c. Ask the class:
Look at your own list. Why did you choose the items you did?

(Survey several student responses and record on chalkboard.)

d. Ask if more input on satisfaction is needed:
Did how much you like certain items influence your choices?
In what ways?

e. Ask if more input on prices is needed:
How did prices of the items influence your purchasing decisions?

f. Look at the list of responses on the chalkboard.
Do any of the reasons for making purchases have anything in common? How?

[Students should observe that two criteria are used when making choices: (1) satisfaction (2) price.]

7) Emphasize: a. SATISFACTION IS INDIVIDUALLY DETERMINED.

b. PEOPLE HAVE DIFFERENT PREFERENCES AND THEREFORE GET SATISFACTION FROM DIFFERENT PRODUCTS AND SERVICES.

c. THE SATISFACTION AN INDIVIDUAL GAINS FROM AN ITEM DETERMINES WHETHER OR NOT THAT INDIVIDUAL FEELS THE ITEM IS WORTH THE PRICE.

8) Distribute another budget sheet.

9) Follow the same procedures as above, however tell students that their budget has been reduced by one half (reduced to $5.00). Allow 5 minutes for choices to be made.

10) Again, ask several students to read aloud the lists they formulated. Tell class members to compare their own lists to the lists that will be read.

11) Focus Questions

a. Did anyone choose the same list of products as the students who read their lists?

b. Ask several students:
Why did you choose the items on your list?

[Point out that the same incentives for making purchases as before are still operating (satisfaction and price) even with a reduced budget.]

c. In what way did satisfaction and price influence your decisions? Explain using an example from your list.

d. Compare your $10.00 budget list with your $5.00 budget list. Were there things that you had to give up? What were they?

e. Why did you give them up?

f. What items did you substitute for the products that you gave up?

g. Why did you substitute those particular items?

h. For what items did you refuse to pick substitutes (if any)? Why?

i. What did you have to give up to stay with the original item you chose? In other words, what were your costs?

12) Closure: a. Tell students that you are going to ask them three quick questions. Have them think for a moment, then turn to their neighbor to respond. Allow students to check their response by orally giving feedback on each question.

b. Focus Questions:

i. HOW IS CONSUMER SATISFACTION DETERMINED?

[Individually according to personal values.]

ii. WHAT MIGHT BE SOME SUBSTITUTES FOR NEWSPAPERS?

[Responses might include magazines, books, television, radio, billboards, etc.]

iii. HOW DO INDIVIDUALS DETERMINE WHETHER A PRODUCT OR SERVICE IS WORTH THE PRICE?

[Consumers consider the amount of satisfaction obtained from the product and compare that satisfaction with the price.]

LESSON # 2 - LECTURE OUTLINE

Choosing Involves Alternatives

I. Consumers economize when they make choices in the marketplace

II. What choices are confronted by different people as they economize?

A. Wealthy people must economize.

1. time
2. alternative satisfactions

B. Football fans must economize

III. What do consumers economize about?

A. Consumers must choose among different products and services.

B. Consumers must choose among different methods to obtain products and services.

IV. Substitutes influence consumer economizing choices.

V. Personal values influence consumers as they economize.

VI. Consumers use personal satisfaction as the criterion to make choices.

LECTURE NARRATIVE: CHOOSING INVOLVES ALTERNATIVES

Economizing (making choices in the marketplace) can become more complicated than the examples we talked about in the previous lesson. Many choices are constantly available to us. Deciding to buy a record, instead of clothes, raises other economizing choices. For instance, you must still choose among records. Will a Bruce Springsteen or a Linda Ronstadt record give you more satisfaction? You'd like to buy both, but your scarce resources (money) force you to choose between them. If you decide on Bruce Springsteen, you may still have economizing choices to make. For example, should you buy his most recent record for $8 or two older releases on sale at two for $8? Or, to add another complication, suppose you've bought the record and taken it home. An hour remains before dinner. Should you use that hour to do your homework or listen to your new record? Which will yield the greater satisfaction? Now the scarce resource has changed. It is no longer money, but time limitations that force you to choose between the alternatives.

Everyone economizes! Now, you might be thinking, "Some people are so wealthy that they can purchase anything they want without feeling a sacrifice." Well, it's certainly true that they won't have to economize as carefully as other people. But even the wealthiest people in the world don't have enough time available to satisfy all their wants. Therefore they must economize in their use of the scarce time resource in order to achieve the greatest possible satisfaction of their wants.

Here's another related point worth thinking about. As people become wealthier, they become aware of and accustomed to new ways to gain satisfaction. More opportunities open up for them, but taking advantage of one opportunity requires them to sacrifice other valued opportunities. Is this why

increasing one's wealth doesn't seem to produce increasing satisfaction in any regular and consistent way? Can you think of a situation where increased wealth might lead you to be more dissatisfied?

The increasing popularity of professional football is another example of the scarcity problem and economizing. When live, color television broadcasts of football games became available, did a football fan's time become more or less scarce? It probably became more scarce. Sunday afternoon relaxation is impossible for some football fans during the NFL season, because they don't want to miss the action. Even staring at the tube without a break doesn't solve the ECONOMIZING PROBLEM because watching one channel means they must give up the satisfaction obtained from watching the game on the other channel. Frustrating! So much is available to us that we must economize.

The automobile presents the same problem. It takes us where we wish to go quicker than horse and buggy, but did it make time less scarce? Probaby not, because now we can travel to so many different and distant places that we're forced to choose among them!

We economize by choosing what we want, and we also economize by choosing how we will try to get it in the marketplace. In other words, economizing occurs when choosing among alternative ends and among alternative means. Count the number of economizing problems you have to face in this situation that deals with food and drink. You are a hungry, thirsty traveler with $1 and you stop at a drive-in and have to choose between satisfying your body's hunger or quenching your thirst. One problem that you face is deciding which will give you the most satisfaction. But you face far more economizing choices than just this because there are many alternative ways to satisfy each of your wants. So, not only must you decide whether thirst-quenching will yield more satisfaction than hunger relief, you must also decide whether a soft drink will yield more

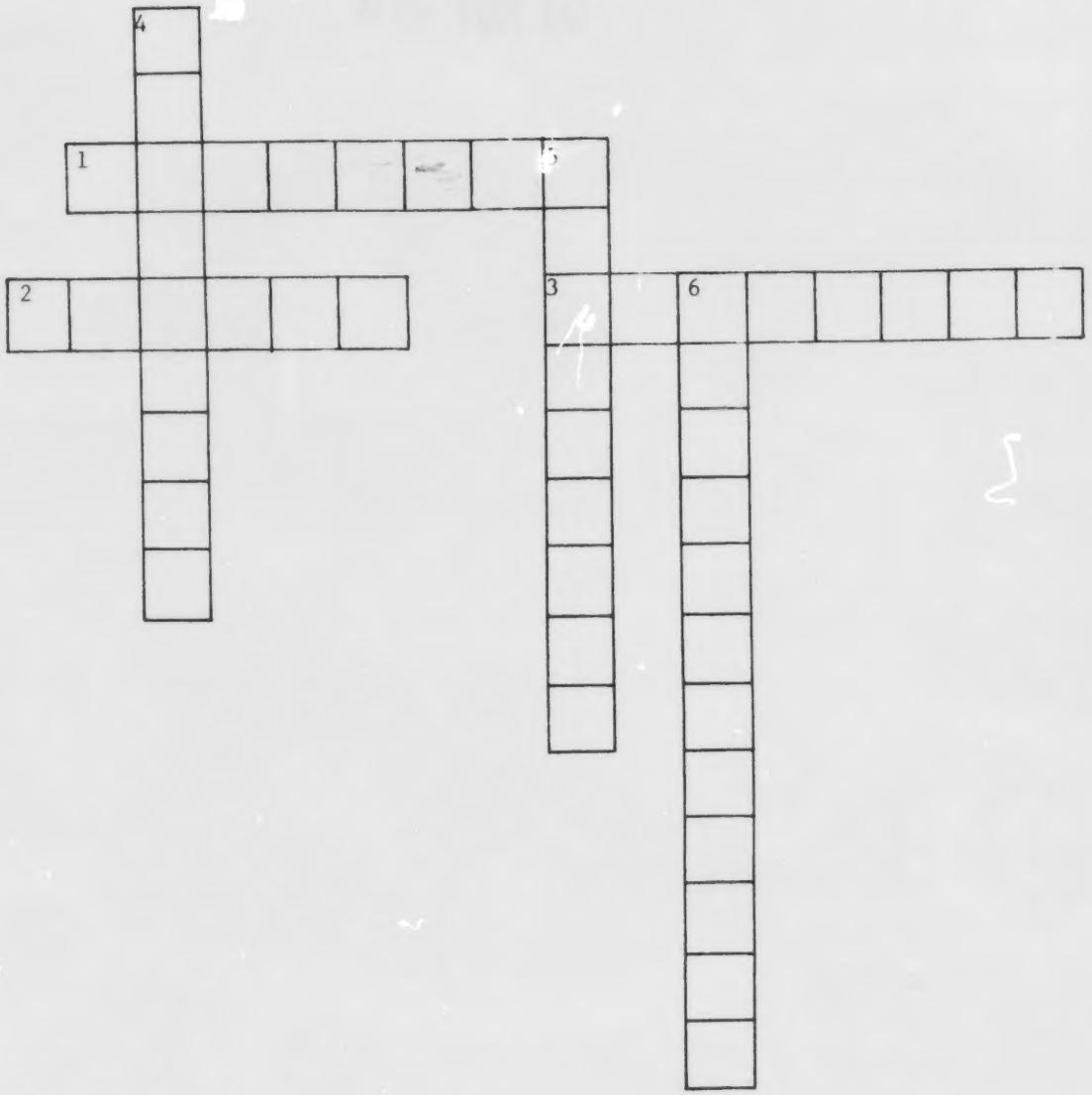
thirst-quenching satisfaction than water. On the other hand, drinking water (no charge) rather than a soft drink to quench your thirst will leave resources available to you to satisfy your other want, relief from hunger.

You can see that choices are part of every action we take because of the wide variety of alternatives available to satisfy our wants. The alternatives are identified as substitutes. Substitutes are products or services that can provide similar satisfaction to consumers. For example, substitutes for butter may be margarine, mayonaise or cheese spread. Substitutes for water may be milk, tea, coffee or soft drinks. Substitutes for automobiles may be bicycles, buses, trains, airplanes, roller skates or your own two legs! Try to think of substitutes that exist for your favorite purchases. They play an important part in your decision-making. Almost all economic goods have substitutes. To economize is to choose among substitutes. There is a larger range of available substitutes than we usually realize so it is important for consumers to investigate this subject and develop an awareness of these alternatives.

Here's another way to look at it. People come in an infinite variety - different sizes, shapes, colors, and most important, abilities and preferences. You and I are as different in our interests as we are in our ability to run a mile, fix a car, read a book or listen to a lecture! And, we don't stay the same as individuals. People at 16 who enjoyed "cruising" the main drag every Friday night may at age 30 enjoy fishing, at age 40 watching their sons or daughters play basketball, and at age 50 spending the evening square dancing. People's abilities and preferences change over time, as they become older, gain new experience, acquire different skills or assume additional responsibilities. "Satisfaction" is consequently achieved by people in endlessly varying ways. And satisfaction is the criterion consumers use to make their choices.

CHOOSING IN THE MARKETPLACE

(OPTIONAL)



Across

1. One who makes purchases in the marketplace.

2. Making a decision involves making a _____.
(When you have more than one item upon which to decide.)

3. When there are limited resources to obtain unlimited wants.
(This forces choice because resources are limited.)

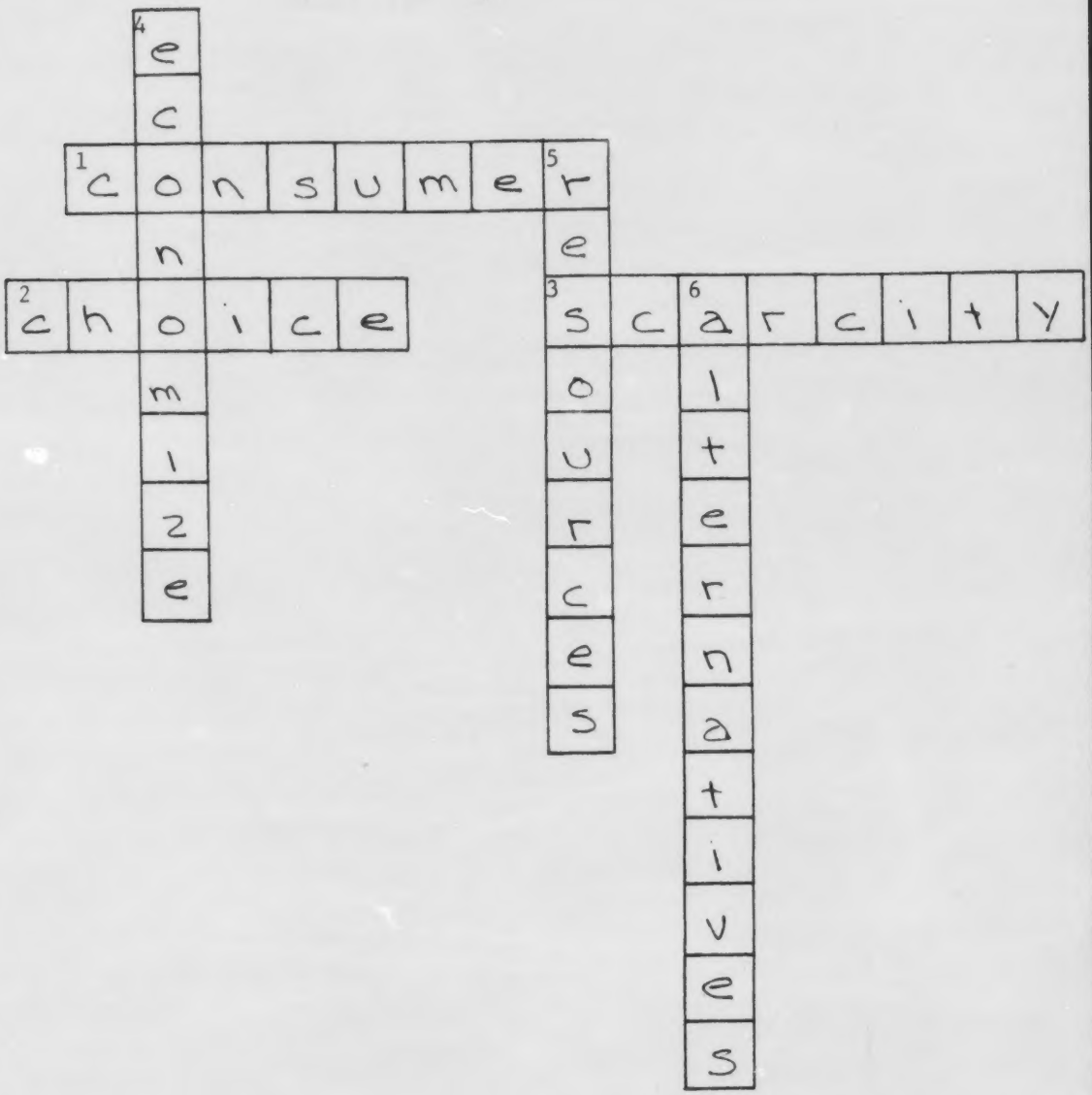
Down

4. To make choices in the marketplace.

5. Used to obtain items of value.

6. Other items from which to choose.
(Substitutes)

CHOOSING IN THE MARKETPLACE



Across

1. One who makes purchases in the marketplace.

2. Making a decision involves making a _____.
(When you have more than one item upon which to decide.)

3. When there are limited resources to obtain unlimited wants.
(This forces choice because resources are limited.)

Down

4. To make choices in the marketplace.

5. Used to obtain items of value.

6. Other items from which to choose.
(Substitutes)

Food Category	Product	Dollar Amount
BREADS		
CEREALS		
DAIRY PRODUCTS		
DESSERTS		
MEAT/CHICKEN/FISH		
FRUITS/VEGETABLES		
MISCELLANEOUS		

Total Spending _____

(cannot exceed _____)

LESSON # 3 - IT MAY COST MORE THAN YOU THINK!

PROCEDURES: Lecture
Listening & Identifying Excercise
Worksheet

TIME: 50 minutes

MAJOR CONCEPTS: Scarcity
Choice
Opportunity Cost

GOALS: The student will be able to . . .

1. explain the concept of Opportunity Cost in his/her own words.

2. identify consumer Opportunity Costs in given situations.

ECONOMIC GENERALIZATONS IN THIS LESSON:

1) The real cost of purchasing (or choosing) a commodity is the next best alternative an individual gives up to obtain that commodity.

MATERIALS: 1. Opportunity Cost Outline: one per student or put on the board and have students copy on their own paper.

DIRECTIONS:

1) IN THE PREVIOUS LESSON, YOU EXAMINED THE ALTERNATIVES AVAILABLE TO CONSUMERS.

2) TODAY YOU WILL EXAMINE THE COST OF CONSUMER CHOICES.

3) Set: Put the following questions on the board or overhead projector:
How did you economize this weekend with these two resources:
(1) time (2) money.

(List examples on the board. You will return to these at the end of the lesson.)

4) IN THE PREVIOUS LESSON, YOU LEARNED HOW INDIVIDUALS ECONOMIZE.

5) TODAY YOU ARE GOING TO DEVELOP AN UNDERSTANDING OF THE COSTS INVOLVED IN ECONOMIZING.

6) Conduct lecture.

7) a. Emphasize: MAKING CHOICES INVOLVES COSTS. INDIVIDUALS GIVE UP (FOREGO) WHAT THEY DO NOT CHOOSE. THE REAL COST OF AN ITEM (THE OPPORTUNITY COST) IS WHAT YOU GIVE UP (THE ALTERNATIVE THAT YOU DID NOT CHOOSE) - NOT JUST THE DOLLAR AMOUNT YOU PAY FOR THE ITEM YOU GET.

b. Remind students of the costs that went along with their food choices made in the previous lesson. The real cost of the products students chose was the next choice of products they would have chosen with their limited resources.

8) BEING ABLE TO PINPOINT YOUR OPPORTUNITY COSTS CAN HELP YOU MAKE SATISFYING DECISIONS IN THE MARKETPLACE. LISTEN CAREFULLY AND SEE IF YOU CAN IDENTIFY YOUR OPPORTUNITY COSTS IN EACH OF THE FOLLOWING SITUATIONS.

a. Read each situation.

b. Have students write the opportunity costs in the space provided on their outline.

c. Give students feedback by discussing each situation after students have had time to respond in writing.

Situation # 1

You bought a nylon jacket instead of the leather jacket that you wanted so that you would have enough money to go on a snow ski trip with your friends. What was your opportunity cost?

[You gave up the leather jacket.]

Situation # 2

You spent ten extra minutes eating your burger and fries at McDonalds. When you went to catch the bus to go home, you found it had already been by the bus stop. You ended up waiting thirty minutes for the next bus home. What were your opportunity costs?

[Not having to wait.]

Situation # 3

You want to participate in a bicycle race tomorrow at 4:00 p.m. and are busy putting new tubes in your bike tires. In the middle of your work, a friend calls and asks if you would like to go water skiing with his family. He tells you that they are leaving in half an hour and will be returning home at 3:45 tomorrow afternoon. You decide to go water skiing. What are your opportunity costs?

[You are giving up a chance to finish fixing your bicycle. You are also probably giving up a chance to participate in the bike race because it will be extremely difficult for you to have your bike ready by race time.]

Situation # 4

The school lunch menu reads: Hot Lunch - $.80; Cold Sandwich - $.50; Apple - $.25; Cookies - $.20; Milk - $.10. You have $.80 and decide to buy the hot lunch. What are your opportunity costs?

[You are giving up any combination of the cold sandwich, apple, cookies or milk that would not have exceeded $.80.]

Situation # 5

You want a pair of Nike sport shoes, but also need a pair of dress shoes. You know that your parents will be upset if you wear sport shoes with your good clothes, so you buy a pair of dress shoes. What are your opportunity costs?

[You are giving up the sport shoes.]

9) Now reconsider your examples of economizing in time and money last weekend. What was your "opportunity cost" in each situation? (Your next best opportunity that you chose not to do).

10) Closure: Have students turn the case study sheet over and write a definition for opportunity cost in their own words. Give students feedback.

LESSON # 3 - LECTURE OUTLINE

Your Choices Have Costs

I. Opportunity costs are involved in all choices.

II. Opportunity cost is the next best opportunity sacrificed by making a choice.

III. Examples of opportunity costs.

A. Class attendance.

B. Summer Job.

C. Baby sitting.

D. Record purchases.

LECTURE NARRATIVE: YOUR CHOICES HAVE COSTS

All choices involve costs. For everything gained, something must be sacrificed. The real cost of a choice is not the money given up, but the next best opportunity foregone (sacrificed) by making that choice. Remember the examples used in earlier lessons? What was the cost of choosing the Bruce Springsteen record? The cost to the traveler ordering a hamburger? In each case, the cost is the satisfaction that has to be sacrificed, or foregone, or given up. The real cost of a choice is the opportunity that would have been seized had that particular choice not been made. And so economists say that real costs are "oppportunity costs", defined as the opportunity sacrificed or foregone by an economizing choice.

Take some time now to identify some opportunity costs in your life. What is the "cost" of attending class? What is the cost of not attending class? What is the cost of a summer job? What is the cost of babysitting on a Saturday night? The costs depend upon the alternative ways you would have spent your time in those four situations. When do you make the right consumer decision? When the choice you make is worth more to you than the opportunity (alternative) you sacrificed. So, if you buy a new Bruce Springsteen record for $8 because you value the new record more than two $4 old albums by Bruce Springsteen, you made the right decision. On the other hand, if you bought the new album, but really preferred to buy two older ones at the $4 price, you made the wrong decision. Two people will consider those same alternatives, make different choices consistent with their values, and both will have made the "right" decision.

II. Opportunity Cost

A. Definition

B. Identifying Opportunity Costs

1. lecture situations

a.

b.

c.

d.

2. situations read by teacher

a.

b.

c.

d.

LESSON # 4 - WHO GETS WHAT FOR HOW MUCH?

PROCEDURES: Auction Simulation
Focus Questions
Worksheet

TIME: 50 minutes

MAJOR CONCEPTS: Value
Price
Scarcity
Satisfaction

GOALS: The student will be able to . . .

1. explain each major concept in his/her own words.

2. explain how the value of a product is determined.

3. identify and explain factors that influence what price consumers will pay for a good or service.

4. explain how price is a measure of scarcity.

ECONOMIC GENERALIZATONS IN THIS LESSON:

1) Price is a measuring device that indicates the relative value of different products and services in the marketplace.

2) Price is a rationing device that allocates products to consumers who value the product or service most highly.

MATERIALS:
1. WHO GETS WHAT FOR HOW MUCH? auction activity sheet (one per student - or blackboard).
2. Three different popular candy bars.
3. Three paper airplanes (each folded differently or each constructed from a different colored piece of paper).
4. Chalkboard (reproduce the Class Auction-Record of Sales grid).
5. Herman cartoon (transparency).

DIRECTIONS:

1) IN THE PREVIOUS LESSON, YOU EXAMINED THE COST OF CONSUMER CHOICES.

2) IN THIS LESSON, YOU WILL EXAMINE THE ROLE OF PRICES IN CONSUMER CHOICES.

3) a. REMEMBER YOU LEARNED THAT OPPORTUNITY COSTS GO ALONG WITH MAKING CHOICES IN THE MARKETPLACE. WHAT ARE SOME OTHER WORDS THAT HAVE MEANINGS SIMILAR TO OPPORTUNITY COST? THINK OF AS MANY AS YOU CAN.

[Student responses might include forego, give up, sacrifice, lose, etc. Write responses on chalkboard.]

b. KNOWING WHAT YOUR OPPORTUNITY COSTS ARE CAN HELP YOU MAKE THE CHOICE BETWEEN SUBSTITUTES THAT SATISFY YOU THE MOST.

c. NOW IT'S TIME FOR YOU TO MAKE SOME CHOICES IN THE MARKETPLACE BY PARTICIPATING IN AN AUCTION.

d. Distribute **WHO GETS WHAT** FOR HOW MUCH? auction activity sheet.

e. KEEP THESE QUESTIONS IN MIND AS YOU ARE MAKING YOUR CHOICES:

i. What determined the price you were willing to pay for an item?

ii. What was the value of each item offered for sale?

iii. What opportunity costs went along with your choices?

iv. How was it determined who got what?

4) I AM GOING TO HOLD A PUBLIC AUCTION.

a. Tell students that they are all consumers in the marketplace and may bid for items at any time or may stop bidding at any time.

b. Offer the first item - one paper airplane.
WHAT AM I BID FOR THIS ONE OF A KIND PAPER AIRPLANE?
Get as much cash as you can for the airplane.
Have students record the item auctioned and the final purchasing price on their auction activity sheet.

c. Tell students that you would now like to sell one of their favorite candy bars. The highest bidder may eat the candy bar right in class. (Do not let on that you have any more candy. Get as much cash as you can for the candy bar — no IOU's.)

d. Offer another paper airplane for sale. Get as much cash as possible.

e. Offer another candy bar for sale. Get as much cash as possible.

f. Offer one final paper airplane. Get as much cash as possible.

g. Offer one final candy bar. Get as much cash as possible.

5) Focus Questions

a. Why were some of you willing to pay good money for a paper airplane when most of you already have paper with you?

b. Why were some of you willing to pay more than the market price for a candy bar?

c. Were you cheated? Why or why not?

(No, it was your free choice to pay the price. Satisfaction was the determining factor.)

d. What determined the price you were willing to bid for each item offered for sale?

e. What was the value of each paper airplane offered for sale?

(The amount you are willing to pay for the satisfaction of having the plane.)

f. What was the value of each candy bar offered for sale?

(Same answer as the previous question.)

g. What is the value of any good or service offered for sale in the marketplace?

(Same answer as the previous question.)

h. If I had told you that I would be offering 100 candy bars for sale during the auction, what is the most you would have been willing to pay for the first candy bar? Why?

6) Review responses to the four questions you asked students to think about before the auction began by surveying student responses and giving feedback.

Emphasize: a. THE PRICE AN INDIVIDUAL PAYS FOR ITEM DEPENDS ON THE SCARCITY OF THE ITEM AND THE AMOUNT OF SATISFACTION THE INDIVIDUAL OBTAINS FROM HAVING THE ITEM. PEOPLE ARE WILLING TO PAY HIGHER PRICES IF THEY OBTAIN A GREAT DEAL OF SATISFACTION FROM AN ITEM AND/OR IF THE ITEM IS SCARCE. PRICE IS A MEASURE OF SCARCITY AND SATISFACTION.

b. THE VALUE OF AN ITEM IS WHAT AN INDIVIDUAL IS WILLING TO GIVE UP TO GET THAT ITEM. THIS INCLUDES THE PRICE AN INDIVIDUAL IS WILLING AND ABLE TO PAY FOR THE ITEM AND THE OPPORTUNITY COSTS INVOLVED WITH CHOOSING THAT ITEM OVER OTHER SUBSTITUTES.

c. THOSE STUDENTS WHO FINALLY OBTAINED ITEMS DURING THE AUCTION COULD HAVE USED THEIR SCARCE RESOURCES IN MANY OTHER WAYS. ALTERNATIVE USES FOR RESOURCES ARE OPPORTUNITY COSTS WHEN NOT CHOSEN.

d. THOSE STUDENTS WHO WERE WILLING AND ABLE TO PAY THE HIGHEST PRICE FINALLY OBTAINED THE ITEMS. PRICES ALLOCATE SCARCE RESOURCES.

7) Closure: a. Show Herman cartoon transparency or just hold it up and read it.

b. USE WHAT YOU KNOW ABOUT HOW INDIVIDUALS DETERMINE THE VALUE OF PRODUCTS AND HOW INDIVIDUALS DECIDE WHAT PRICES THEY WILL (OR WILL NOT) PAY FOR PRODUCTS TO HELP YOU EXPLAIN THE BEHAVIOR OF THE CONSUMER.

c. Focus Questions

i. What products did the consumer want?

[pea soup and baked potato]

ii. What products did he get?

[chicken noodle soup and french fries]

iii. What did the products cost the consumer (i.e. how much was the dinner bill?

[$39.00]

iv. What price was the consumer willing to pay for the products?

[$10.00]

v. What is the consumer really trying to tell the waiter?

[The consumer does not value the substitute products as much as the original products he ordered because he is unwilling to pay the same price for the substitutes. The substitutes did not give the consumer as much satisfaction as his original order would have given him.]

WHO GETS WHAT FOR HOW MUCH?

Class Auction - Record of Sales

Item Auctioned	Purchase Price

1. What determines the price you are willing to pay for goods or services?

2. What is the value of an item offered, for sale?

3. How was it determined who got what during the auction?

HERMAN Cartoon by Jim Unger removed by ERIC due to copyright law.

Copyright, 1981, Universal Press Syndicate.
All rights Reserved.

LESSON # 5 - ALLOCATING GOODS & SERVICES IN THE MARKETPLACE

PROCEDURES: Food Allocation Excercise
Focus Questions
Lecture
Worksheet
Rationing Demonstration

TIME: 50 minutes

MAJOR CONCEPTS: Value
Price
Scarcity
Allocation (Ration)

GOALS: The student will be able to . . .

1. explain each major concept in his/her own words.

2. identify problems that arise when items are allocated according to needs.

3. explain how price allocates (rations) scarce resources.

ECONOMIC GENERALIZATIONS IN THIS LESSON:

1) It is difficult to allocate goods and services based on needs because individuals define their own needs differently and suppliers have no way of really knowing whose needs are most important.

2) Price is a rationing device used to allocate products and services to consumers who are willing to pay the most for them (have the greatest demand for them).

MATERIALS: 1. Chalkboard or overhead projector.
2. ALLOCATING GASOLINE sheet (one per student).
3. Felt pen (one per class).

DIRECTIONS:

1) IN THE PREVIOUS LESSON YOU EXAMINED THE ROLE OF PRICES AND HOW THEY INFLUENCE CONSUMER CHOICES.

2) IN THIS LESSON, YOU WILL EXAMINE ALTERNATIVE WAYS TO ALLOCATE PRODUCTS TO CONSUMERS.

3) CONDUCT LECTURE - PART I.

4) YOU MIGHT BE THINKING THAT TRYING TO ALLOCATE SPECIFIC FOOD ITEMS BASED ON NEEDS CREATES MORE PROBLEMS THAN ALLOCATING OTHER PRODUCTS ACCORDING TO NEEDS BECAUSE PEOPLE HAVE SUCH VARIABLE TASTES WHEN IT COMES TO FOOD AND BECAUSE THERE ARE SO MANY DIFFERENT KINDS OF FOOD. WOULD WE FACE THE SAME DISSAGREEMENTS AS TO WHO NEEDS WHAT IF WE

TRIED TO ALLOCATE ONE SPECIFIC NON-FOOD PRODUCT? LET'S TRY IT AND SEE WHAT HAPPENS.

a. Distribute ALLOCATING GASOLINE sheet.

b. Instruct students to individually indicate who needs gasoline the most by numbering each use in order from 1 to 10.

c. Allow 2-3 minutes.

5) Focus Questions

a. Who needs gasoline the most?
Which use should be marked number 1? Why?

Disagreements should surface.

b. Which use for gasoline is second in importance? Why?

c. Ask a student to read his/her list in order of who needs gasoline the most. Why?

d. What might be some problems that would arise if we tried to allocate gasoline according to needs?

e. How do you think the hydroplane racing boat owners and drivers would feel if their supply of gasoline was cut off?
How would lack of gasoline affect the boat owners and drivers?

f. What might be some problems with trying to ration any good or service according to needs?

Individuals see needs differently based on personal values.

6) CONDUCT LECTURE - PART II.

7) Emphasize: IT IS DIFFICULT TO ALLOCATE GOODS AND SERVICES BASED ON NEEDS BECAUSE . . .

a. EACH INDIVIDUAL DEFINES HIS OR HER OWN NEEDS DIFFERENTLY (EACH PERSON DECIDES WHO NEEDS WHAT DIFFERENTLY)

b. ALLOCATORS (SUPPLIERS) HAVE NO WAY OF REALLY KNOWING WHOSE NEEDS ARE MOST IMPORTANT.

8) DO WE HAVE TO ALLOCATE GOODS AND SERVICES ACCORDING TO NEEDS?
WATCH AND LISTEN CAREFULLY.

a. I HAVE A FELT PEN TO OFFER (ALLOCATE OR RATION) TO CLASS MEMBERS. HOW MANY OF YOU WOULD LIKE THIS PEN?

b. I HAVE A PROBLEM: THERE IS ONE PEN AND SEVERAL PEOPLE WHO WANT IT.

c. IF I DECIDE TO ALLOCATE THIS PEN TO THE PERSON WHO NEEDS IT MOST, I AM GOING TO HAVE PROBLEMS BECAUSE I HAVE NO OBJECTIVE WAY OF DECIDING WHOSE REASONS FOR NEEDING THE PEN ARE THE MOST JUSTIFIED.

d. INSTEAD, I AM GOING TO ALLOCATE THIS PEN TO THE PERSON WHO WILL PAY THE HIGHEST PRICE.

e. Allow students to bid for the pen and give the pen to the highest bidder.

9) Focus Questions

i. How was it determined who got the pen? How was the pen rationed?

ii. How was it determined who got the scarce airplanes and candy bars in the auction held yesterday?

iii. What might have happened if the auctioneer had tried to allocate the goods according to needs?

iv. What does the value and price of a product have to do with the allocation of that product?

v. How are services allocated in the marketplace?

vi. How is gasoline allocated in the marketplace?

10) CONDUCT LECTURE - PART III.

11) Closure: a. THINK ABOUT EACH OF THESE QUESTIONS I AM GOING TO ASK YOU, THEN TURN TO YOUR NEIGHBOR AND RESPOND TO EACH QUESTION.

b. Focus Questions

i. What might be some problems that suppliers would encounter if they tried to ration digital watches based on peoples needs?

ii. How is it decided who gets digital watches in the marketplace? In other words, how are digital watches rationed in the market place?

iii. What do value and price have to do with the allocation of goods and services in the marketplace?

Orally give students feedback on each question.

LESSON # 5 - LECTURE OUTLINE

Allocating Goods & Services in the Marketplace

I. How should products and services be allocated to consumers?

   A. Wants and needs are difficult criteria to use when deciding how to allocate consumer products.

   B. Individual differences among people make it difficult to agree on what "needs" everyone requires.

   C. Is food a necessity?

II. Does rationing solve the problem of gasoline shortages?

   A. Should gasoline be allocated according to need?

   B. How could gasoline be rationed?

III. What is the role of prices in the economy?

   A. Prices serve as a rationing system.

   B. All consumers purchase less at higher prices and more at lower prices.

   C. Prices allow for the variation in people's wants and abilities.

   D. Prices help consumers compare the relative value of products and services.

   E. Prices help producers decide what to make and sell.

LECTURE NARRATIVE: WHO GETS WHAT

PART I

Often people speak of the needs they have for particular things such as food, clothing and shelter. Using needs as a criterion for allocating goods is not very helpful. People using an economic way of thinking are skeptical about the things we "need" because statements about people's "needs" tend to overlook the differences among people and the many different ways in which people can economize (choose). The word "needs" implies that all people require the same basic goods. That assumption is very misleading.

For example, everyone "needs" food to survive, but after this point of agreement, an endless assortment of economizing questions begin. What kind of food is needed and how much food is needed? When you go grocery shopping, you just don't buy packages labled "Food" - you purchase specific kinds of food in specific quantities. Perhaps it would help to ask: What constitutes survival? But, again, there is disagreement. For some of you, "survival" might mean a bread and water diet, but for most of us, "survival" means eating far more food and more high quality food than mere good health requires. A diet that satisfied all nutritional requirements could be purchased for far less than what most Americans spend on food. Food would cost us less and our calorie intake would be lower if people stayed with a nutritionally minimum diet. But people don't just eat for nutrition; they also eat because they enjoy eating. And what food people enjoy varies tremendously. Therefore, it is difficult to allocate food strictly according to needs because people define their individual needs differently.

PART II

If the nation gets into another "oil crisis," should the government start ratio. ing gasoline by entitling everyone to the same amount of gasoline? Would such an allocation fit our "needs" better?

That position is hard to defend. "Equal amounts for everyone" is very hard to define. What is "the same amount of gasoline for everybody"? How much gasoline is needed? Is it seven times as much for a family of seven as for a person living alone? Is it the same amount per licensed driver or per person over sixteen? Or is it the same amount per automobile? What about people who use their cars in their jobs? Shouldn't they get more gasoline than those who don't or people who have convenient bus service available? How about businesses? Should they get all the gasoline they want? What about recreational vehicles, motor boats, and private airplanes? Should we allocate less gasoline to someone who owns a motorcycle and can get around on it, so that more gasoline is available for very timid people who only feel safe in a large car? Maybe no one under the age of 19 should be allowed to use gasoline because "they don't really need it." How do you feel about the idea?

These examples crystalize the problem. It is impossible to allocate gasoline on the basis of people's needs because we can't assess accurately and fairly what people's needs are!

PART III

As you have discovered, a method which by-passes the problems involved with allocating gasoline according to needs is to ration gasoline (or any product/service) according to people's ability and willingness to pay for it. Some people may object to this plan because it doesn't seem fair that rich people would have all the gasoline they want while the poor must go without.

That situation may be unfair, but does it describe what would happen if the Middle East suppliers cut back oil supplies by 20%? Would the rich take everything and the poor get nothing if prices were allowed to rise? Actually, everyone tends to purchase less at high prices than at lower prices. Both rich and poor would cut back on their purchases of gasoline because of the opportunity cost involved. Money paid to cover higher gasoline prices cannot be used for other valued opportunities. Neither rich nor poor people desire to give up those opportunities, so they will reduce gasoline purchases. Most scarce goods, from lobsters through concert tickets to automobiles, are rationed by willingness and ability to pay. But the rich don't take all the lobsters or concert tickets or automobiles.

The price system pays attention to the enormous variation in people's wants and abilities. A sales representative whose income depends on driving will make the decision to pay a very high price for gasoline rather than sacrifice sales and income. On the other hand, people who drive because it is a minor convenience will choose to sacrifice that convenience rather than pay so much money for gasoline that they are forced to give up more valuable satisfactions. In this way, convenience drivers, responding to the price system of rationing, make more gasoline available for drivers who must use their cars for work.

Still you may not be satisfied. You may be thinking, "What about 'non-essential' uses of gasoline? Shouldn't these uses be banned in an 'oil crisis'?" Well, that returns us to the old problem of definition. What is a "non-essential" use of gasoline? Maybe gasoline should not be sold to boats for water skiing. Many would insist that it is less important to supply fuel to water-skiers than to supply it to trucking companies. That makes sense only until we start thinking about it more carefully. What if the truck is transporting water skis from the factory to the retail store? Maybe fuel should only

be allocated to "essential" goods. But the word "essential" is like the word "needs". Both words tend to hide the vast possibilities for economizing when an increased scarcity problem arises. Remember that goods in themselves cannot be essential or non-essential. What counts is the uses to which people put the goods. In practice, a non-essential use turns out too often to be any use to which the person speaking doesn't want gasoline put.

A non-essential use usually means whatever you, as an individual, think gasoline should not be used for. Unfortunately, other individuals, with different tastes and values, will not agree with your decision. Pricing solves this problem by letting each individual decide what is essential to them and what "non-essential" uses to forego.

Rationing products and services according to price also provides a comparative message to consumers as they decide how to use their scarce resources. The money price that must be paid to obtain a good is a measure of that good's scarcity relative to all other goods.

Look at it from the consumer's point of view. The different prices on all the items in a grocery store are important information to shoppers who must choose what foods they want to consume. They consult their own taste and what they must give up to satisfy those tastes, as indicated by the prices of various goods. If a pound of steak is twice the price of a pound of fish, the shopper knows that steak must yield twice as much satisfaction as the fish or it shouldn't be purchased.

Prices are important messages to suppliers also as they decide what products to produce and how to produce them. For example, if the price of wood rises relative to the price of steel, suppliers of bookcases will produce fewer wood bookcases and more metal ones.

If consumers decide that they much prefer wood bookcases to metal ones,

they'll continue to buy wood bookcases even at a higher price. In this way they'll bid wood away from other uses. Their willingness to pay a higher price for the sake of the greater satisfaction afforded by a wood bookcase will mean a higher price must be paid for wood by suppliers of other wooden products. These other suppliers will consequently economize in their use of wood.

In short, the price system transmits information about relative scarcities throughout the economy. In turn, that information encourages people to act in ways that pay attention to other people's preferences. As goods become more scarce, higher prices persuade consumers to purchase less and leave more for others. Higher prices on goods that have become more scarce simultaneously tempt suppliers to enrich themselves by making more available, if they can, and thereby to reduce the scarcity. Prices allow consumers and producers to recognize which products are most scarce, most valued, and to adjust voluntarily to the scarcity problem.

ALLOCATING GASOLINE

In order to allocate gasoline based on needs, we have to figure out who needs gasoline the most.

If you were in charge of rationing gasoline, who do you think would need it the most? Number each of the following from 1 to 10 in order of preference to indicate who you feel needs gasoline the most.

NOTE: Remember that without gasoline, certain people will lose their jobs.

_____ fire fighters

_____ farmers (to operate agricultural machinery)

_____ traveling salespeople

_____ airline companies

_____ your family (to meet transportational needs)

_____ school districts (to operate buses)

_____ trucking companies

_____ police

_____ manufacturing companies

_____ hydroplane racing boat owners

_____ teenagers with jobs

_____ teenagers without jobs

LESSON # 6 - SUPPLIERS & CONSUMERS DEPEND ON EACH OTHER

PROCEDURES: Lecture
Dealing in the Marketplace Simulation
Focus Questions

TIME: Two 50 minute time periods.

MAJOR CONCEPTS: Choice
Incentives
Demand
Supply
Interdependence
Surplus
Shortage
Price

GOALS: The student will be able to . . .

1. explain each major concept in his/her own words.
2. explain how consumer demand affects suppliers.
3. predict behavior of suppliers when consumer demand increases or decreases.
4. predict behavior of consumers when prices increase or decrease.

ECONOMIC GENERALIZATIONS IN THIS LESSON:

1) Both suppliers and consumers make economizing decisions in the marketplace.
2) By purchasing products and services, consumers encourage suppliers to produce those products and services consistent with consumer desires.
3) People tend to consume more of a product when it has a low price and less of a product when it has a high price.
4) The market is dependent upon the voluntary decisions of people to transact different products and services.
5) Buyers and sellers adjust to each others' economizing behaviors in the marketplace.

MATERIALS:
1. 36 Buyer Cards and 36 Seller Cards (make as specified).
2. Sample Individual Transaction Sheet (transparency).
3. INDIVIDIUAL TRANSACTION SHEET (one per student).
4. Class Transaction Sheet (reproduce on butcher paper, overhead projector, or chalkboard - one per class).
5. Consumer Demand Sheets (one copy of each sheet).
6. DEMAND, SUPPLY & INCENTIVES TO ACT multiple choice exercise sheet (one per student).

DIRECTIONS:
(DAY ONE)

1) IN THE PREVIOUS LESSON, YOU EXAMINED ALTERNATIVE WAYS TO ALLOCATE PRODUCTS.

2) IN THIS LESSON, YOU WILL EXAMINE HOW CONSUMER BEHAVIOR INFLUENCES PRODUCTS.

3) a. WHEN YOU GO TO THE STORE TO PURCHASE A NEW 10-SPEED BICYCLE, WHAT GUIDES YOUR ECONOMIZING BEHAVIOR (YOUR CHOICES ON HOW TO SPEND SCARCE RESOURCES) IN THE MARKETPLACE?

b. BEFORE YOU CAN MAKE THAT CHOICE, THE BICYCLE MUST BE AVAILABLE TO YOU IN THE FIRST PLACE.

c. HOW MANY PEOPLE DO YOU SUPPOSE ARE INVOLVED IN THE MANUFACTURING AND SELLING OF 10-SPEED BICYCLES?

[Generate a list of all the jobs that must be done in order for a bicycle to be offered for sale. Possible responses include making steel, making rubber, making plastic, molding pieces, assembling pieces, making decals, processing leather, shipping to retail stores, selling, etc.]

d. HOW DO SUPPLIERS COORDINATE ALL OF THE ACTIVITIES THAT GO INTO MAKING AND SUPPLYING PRODUCTS?
HOW DO SUPPLIERS DECIDE WHAT TO PRODUCE?
HOW DO SUPPLIERS SET PRICES?
YOU SHOULD BE ABLE TO RESPOND TO THESE QUESTIONS AT THE END OF TODAY'S ACTIVITIES.

WARNING: This activity is similar to the "Big Apple" which may have been taught by the social studies teacher in your building. However, this simulation teaches different ideas. Have students focus on the above questions.

4) CONDUCT LECTURE - PART I.

5) Tell students that they will be participating in a simulation activity (game) called DEALING IN THE MARKETPLACE.

a. Clear the center of the room to form a marketplace.

b. Select one student to be KEEPER of the Buyer and Seller Cards.

c. Select one student to record all market transactions on the Class Transaction Sheet.

d. Divide the class into two equal groups. One group will be sellers (suppliers); the other group will be buyers (consumers). Sellers remain sellers throughout the simulation and buyers remain buyers.

e. Distribute INDIVIDUAL TRANSACTION SHEETS (1 per person). Have students fill in Round # 1, # 2, or # 3 on the sheets. Have students circle Buyer or Seller on the sheets.

f. Use the sample Individual Transaction Sheet transparency to explain how to use the sheet.

g. THE OBJECT OF THIS GAME IS TO MAKE ECONOMIZING DECISIONS THAT HELP YOU MAKE MONEY. YOU DO NOT WANT TO LOSE ANY MONEY.

h. SELLERS, YOU MAY EITHER SELL ARTICHOKES OR BEETS - OR A COMBINATION OF BOTH. YOU MUST DECIDE BEFORE EACH ROUND OF BUYING AND SELLING HOW MANY POUNDS OF ARTICHOKES AND/OR BEETS YOU WILL OFFER FOR SALE. YOU MAY OFFER FOR SALE ANY COMBINATION OF ARTICHOKES AND BEETS UP TO 5 POUNDS TOTAL. WRITE EITHER ARTICHOKES OR BEETS IN THE PRODUCT SPACES ON YOUR TRANSACTION SHEET. SELLER CARDS WILL GIVE YOU INFORMATION ON WHAT PRICES TO CHARGE TO AVOID LOSING MONEY. YOU WILL TAKE A LOSS OF $.30 ON EACH POUND OF ARTICHOKES OR BEETS THAT YOU DO NOT SELL.

i. BUYERS, I WILL TELL YOU TO TRY TO PURCHASE A DESIGNATED QUANTITY OF ARTICHOKES AND BEETS BY HOLDING UP A CONSUMER DEMAND SHEET BEFORE EACH ROUND OF BUYING AND SELLING BEGINS. FOR EXAMPLE, THE CONSUMER DEMAND SHEET MAY TELL YOU TO PURCHASE 1 POUND OF ARTICHOKES AND 4 POUNDS OF BEETS. WRITE THE NAME OF THE PRODUCTS YOU WILL BE TRYING TO BUY THE NUMBER OF TIMES INDICATED IN THE PRODUCT SPACES ON YOUR TRANSACTION SHEET. STICK TO THESE QUANTITIES WHEN YOU ARE BUYING IN THE MARKETPLACE. YOU WILL NOT BE PENALIZED FOR ANY PRODUCTS THAT YOU CANNOT BUY. BUYER CARDS WILL GIVE YOU INFORMATION ON WHAT PRICE TO PAY TO AVOID LOSING MONEY.

j. DURING EACH ROUND, GO TO THE MARKETPLACE, FIND A SELLER OR BUYER, AGREE ON A PRODUCT AND A TRANSACTION PRICE, MARK THE TRANSACTION PRICE NEXT TO THE NAME OF THE PRODUCT ON YOUR INDIVIDUAL TRANSACTION SHEET, THEN RECORD THE PRICE INDICATED ON YOUR OWN CARD. IT IS THE SELLER'S RESPONSIBILITY TO GO TO THE CLASS TRANSACTION SHEET AND RECORD THE DEAL. THEN BOTH THE BUYER AND THE SELLER TURN IN THEIR CARDS AND GET NEW CARDS FROM THE CARD KEEPER. (Locate the Card Keeper near the Class Transaction Sheet.)

k. WHEN DECIDING ON TRANSACTION PRICES, INCREASES OR DECREASES IN THE SALE PRICE MAY OCCUR ONLY IN $.05 OR $.10 AMOUNTS.

l. THREE ROUNDS OF TRADING WILL BE CONDUCTED. EACH ROUND LASTS 5 MINUTES.

m. MAKE AS MANY DEALS AS YOU CAN IN THE TIME PERMITTED.

n. YOU WILL HAVE TIME TO FIGURE YOUR NET GAINS OR LOSSES AFTER EACH ROUND IS FINISHED.

6) Conduct Round # 1

a. Have sellers decide how many pounds of each product to offer and record in the product column of their INDIVIDUAL TRANSACTION SHEET.

b. Distribute Buyer Cards to buyers and Seller Cards to sellers. Give remaining Buyer and Seller Cards to the Card Keeper.

c. Show buyers the Consumer Demand Sheet for Round # 1 (do not show sellers). Have buyers record each product the number of times indicated in the product column of their INDIVIDUAL TRANSACTION SHEET for Round # 1.

d. Open the round for buying and selling. Warn students when there is one minute remaining in the round. Call time after 5 minutes.

e. Allow students time to figure their individual net gains or losses.

f. Focus Questions

i. Look at the Class Transaction Sheet.
How many pounds of artichokes were sold?
At what price did most transactions occur?

ii. How many pounds of beets were sold?
At what price did most transactions occur?

7) Conduct Round # 2

a. Have sellers decide how many pounds of each product to offer and record in the product column of their INDIVIDUAL TRANSACTION SHEET for Round # 2.

b. Show buyers the Consumer Demand Sheet for Round # 2 (do not show sellers). Same procedure as for Round # 1.

c. Distribute Buyer Cards to buyers and Seller Cards to sellers. Give remaining Buyer and Seller Cards to the Card Keeper.

d. Open the round for buying and selling. Warn students when there is one minute remaining in the round. Call time after 5 minutes.

e. Allow students time to figure their individual net gains or losses.

f. Focus Questions

i. Look at the Class Transaction Sheet.
How many pounds of artichokes were sold in Round # 2?
At what price did most transactions occur?

ii. How many pounds of sugar beets were sold in Round # 2?
At what price did most transactions occur?

8) Conduct Round # 3.

a. Have sellers decide how many pounds of each product to offer and record in the product column of their INDIVIDUAL TRANSACTION SHEET for Round # 3.

b. Show buyers the Consumer Demand Sheet for Round # 3 (do not show sellers). Have buyers record each product the number of times indicated in the product column of their INDIVIDUAL TRANSACTION SHEET for Round # 3.

c. Distribute Buyer Cards to buyers and Seller Cards to sellers. Give remaining Buyer and Seller Cards to the Card Keeper.

d. Open the round for buying and selling. Warn students when there is one minute remain in the round. Call time after 5 minutes.

e. Allow students time to figure their individual net gains or losses.

f. Focus Questions

i. Look at the Class Transaction Sheet.
How many pounds of artichokes were sold in Round # 3?
At what price did most transactions occur?

ii. How many pounds of beets were sold in Round # 3?
At what price did most transactions occur?

(DAY TWO)

9) Focus Questions

a. Sellers, how did you decide how many pounds of artichokes and sugar beets to offer for sale in each round?

b. What product did buyers demand more of in each round?

c. Did you have a net gain or loss of money?
What might have helped cause your net gain or loss?

d. Sellers, how many pounds of each product would you have offered for sale if there had been a Round # 4? Why?

e. How do farmers decide how much of a certain product they should grow?

f. What motivates or prompts suppliers to produce goods and services and offer them for sale?

g. How are suppliers and consumers dependent on each other? In other words, explain how supply and demand are interdependent.

10) CONDUCT LECTURE - PART II.

11) Emphasize: SUPPLY (GOODS AND SERVICES OFFERED FOR SALE) AND DEMAND (CONSUMER WANTS) ARE INTERDEPENDENT. SUPPLIERS USUALLY OFFER WHAT CONSUMERS DEMAND IN ORDER TO MAKE MONEY. THE PRICES THAT CONSUMERS ARE WILLING TO PAY FOR PRODUCTS DEPENDS ON THE SCARCITY OF THE PRODUCTS (HOW MANY OF THE PRODUCTS SUPPLIERS OFFER FOR SALE).

12) CONDUCT LECTURE - PART III.

13) Closure: a. Distribute DEMAND, SUPPLY & INCENTIVES TO ACT multiple choice exercise sheet.

b. BASED ON WHAT YOU'VE LEARNED ABOUT INCENTIVES AND THE BEHAVIORS OF SUPPLIERS AND CONSUMERS, SELECT THE RESPONSE THAT MAKES THE MOST SENSE IN EACH SITUATION.

c. Orally review answers with students.

(Responses: 1.B, 2.D, 3.C, 4.A, 5.C)

LESSON # 6 - LECTURE OUTLINE

Suppliers and Consumers Depend on Each Other

I. Social cooperation allows consumer wants to be satisfied.

   A. Social cooperation exists when people depend upon others to meet their economic goals.

   B. Consumers depend on other people to obtain products and services.

   C. People choose to cooperate in order to satisfy their own wants.

II. Suppliers change their behavior to adjust for changes in consumer behavior.

   A. Changes in consumer purchases encourage suppliers to change their behavior.

   B. Examples of consumers and suppliers changing their behavior.

      1. Golf balls

      2. Tennis balls

III. Consumer and suppliers adjust to changed economic conditions.

   A. What happens when consumers change from playing golf to playing tennis?

      1. consequences of change
         a. emptier golf courses
         b. crowded tennis courts

      2. supplier changes
         a. use golf courses differently
         b. increase the availability of tennis courts

   B. How do price changes influence consumers and suppliers?

      1. encourage suppliers to provide more tennis facilities

      2. encourage tennis players to limit their playing time

   C. Social cooperation is encouraged by adjusting the incentives for people to produce and consume.

LECTURE NARRATIVE: SUPPLIERS AND CONSUMERS DEPEND ON EACH OTHER

PART I

Economically, we depend on other people. All of us, rich or poor, get a lot of help from other people. That's pretty obvious, even though it's often forgotten. For instance, just to get us a simple pencil, thousands of people must help by cutting trees, making steel, driving trucks, growing rubber trees, making glue, mining graphite, selling pencils, and so on and on.

How is the cooperation organized in a society such as ours with its incredible specialization and division of labor? To answer this question, first you must realize that the resources available to us as we make our economizing choice depend extensively upon the economizing choices that others make.

Ask yourself why you even have the opportunity to choose between a Springsteen and Ronstadt record. How are the resources used in these records made available? Musical records are not "natural resources" themselves, they are products made available through the efforts of people. Which people? An endless list of people, when one starts to think about it: the record store clerk; the employees of the recording company; the performers; the people who manufacture vinyl from which records are made; those whose activities made available the resources from which the vinyl factory and machinery were produced; the truck drivers who moved all these necessary resources into the proper places at the appropriate times; all the people without whose cooperation trucks would not exist; and so on and on in every direction. What caused them all to cooperate in just the right manner so the records were available to you?

They chose to cooperate to satisfy their own wants and this cooperation promised to deliver more satisfaction than any other choice available to them.

Suppliers economize just as consumers do. Suppliers use their available resources trying to achieve the greatest possible satisfaction of their own wants.

What holds the system together? What prompts producers to supply what consumers want, at the right times, in the right places, and in the right quantities? To best see how it all works, consider what happens if consumers change their minds about what they want.

PART II

When consumers change their minds about what they want, suddenly suppliers are induced to change their behavior also because they must satisfy consumers in order to gain their own satisfaciton. What would happen if millions of dedicated golfers gave the game up in order to play tennis? To begin with, these consumers would now want fewer golf balls and more tennis balls. But how can suppliers be persuaded to cut production of golf balls and expand production of tennis balls? The answer is that as consumers purchase more tennis balls and fewer golf balls, suppliers end up with many unsold golf balls (a surplus of golf balls) and a shortage of tennis balls. This shortage represents missed opportunities to sell tennis balls. Suppliers must change their ways and start offering fewer golf balls and more tennis balls in order to make money. They will want to do this because unsold golf balls aren't as valuable a resource to suppliers as tennis balls that sell quickly.

Think about it. What are real costs (opportunity costs) to the owner of a sporting goods store of stocking golf balls at a time when customers want tennis balls instead? What are valuable opportunities forgone? When a customer is turned away, it is a profitable sale forgone. Even the salesperson says, "We're all out of tennis balls, but we've got some more ordered, and we expect them

next week," the sale is probably lost. The customer will most likely go elsewhere rather than return next week. In addition, those unsold golf balls represent money and shelf space tied up in products with no value to the supplier. That money and shelf space could be used for alternative goods which add to the store owner's wealth.*

[*SPECIAL NOTE TO TEACHERS: The claim is not made above that tennis ball prices will rise while golf ball prices will fall in the circumstances described. That is a highly misleading claim at best, albeit one into which economics teachers often rush in their eagerness to talk about prices. The initial result of the change in demand will be excessive and inadequate inventories. Relative prices may or may not change subsequently; but if they do, it will be in response to actions triggered by these inventory changes. Meanwhile, excessive and inadequate inventories are themselves an incentive to adjust behavior, because they represent less than optimal economizing of scarce resources.]

PART III

What are some other consequences of consumers changing from golf to tennis. You would expect to see emptier golf courses and more crowded tennis courts. Does that mean suppliers of golf courses will close them down while tennis court suppliers will build more tennis courts? What will be the effects of crowded tennis courts and deserted golf courses where these resources are owned and provided by an individual owner or company? How might the empty golf links and crowded tennis courts affect the economizing decision that the suppliers will make?

[Stop. Have students make predictions regarding choices that golf course owners will make if golf links are empty.]

In the case of golf courses, the owners will quickly realize their land (a resource) is bringing in less income than before. They'll look for ways to use the land to obtain more income from it. What are their alternatives? They may sell it to a land developer who offers a high price because he knows consumers are eager to purchase houses in the area. Such economizing choices by resource

owners (golf course owners and real estate developers) will result in less land for golfers and more land for households.

[Stop. Have students make predictions regarding choices that tennis court owners will make if the courts are always crowded.]

In the case of tennis courts, private tennis club owners will find they can raise their rates and still keep the courts full. They may consider expanding the facilities. They'll try to buy land (bid the resource away from other uses) for more courts, thereby making more land available for tennis players and less for other purposes.

Many different prices help these changes to occur. For example, the higher prices that private tennis club owners charge when tennis players begin to crowd the courts have two effects. In the first place, higher prices induce club owners to provide more facilities than they otherwise would. Economizing suppliers produce more of any good when the price they can obtain for it rises. Listen to a typical conversation from a tennis club owner. "Wish I owned ten more courts. I could keep them all in use. What we've done is hire more people, though. Now we open up at six in the morning every day and stay open until midnight." Notice that there are even ways to supply more to consumers without actually "constructing" more courts. Higher prices for the product or service make it worthwhile for the owner to pay people overtime wages which means the courts can be available longer.

Secondly, higher prices persuade some tennis buffs to play less often than they otherwise would. Economizing consumers purchase less of any good when the price they must pay for it rises. Listen to a typical conversation from a tennis player. "When I started playing tennis, I used to play twice a week. But the hourly rate has gone up, and I've cut back. Can't afford to play that much." What does "can't afford" mean? It means that the consumer expects to

obtain more satisfaction from spending the court fee on something other than tennis. Notice that this economizing effect reduces crowding on the courts. It rations the courts to the players who value playing tennis most highly.

As you can see, the wants of consumers and offers of suppliers adjust to one another by changing the money prices. This price system works more or less automatically. When demand (what consumers are willing and able to pay) for a product increases relative to supply (what producers are willing and able to provide), there is a shortage of the product and competition among consumers tends to increase prices. As a result, suppliers receive additional incentive to do what they can to make more of these products available, while consumers economize more on the now scarcer good. When supply of a product increases relative to demand, there is a surplus of the product and sellers eager to reduce their inventories tend to lower prices. As a consequence, economizing consumers will tend to use more of the good. Think of the price of electronic games before and after Christmas. The price is high before Christmas and usually falls after Christmas as stores hold sales to move excess merchandise. Can you see how the relationship between supply and demand has changed?

To summarize: In our kind of economic system, when people's wants change or when other conditions change, incentives also change. Consumers and suppliers then begin adjusting their behavior to take account of the new incentives they're confronting. That's basically how we organize cooperation in our specialized and interdependent economy.

SAMPLE

INDIVIDUAL TRANSACTION SHEET

TRANSPARENCY

Circle One: Buyer Seller

Directions: Upon the beginning of each round, go to the marketplace. Find a seller or a buyer who wants to make a transaction. Agree on buying or selling one pound of a specific product and on a transaction price for that product. Record the agreed upon Transaction Price in Column III on this Individual Transaction Sheet, then record the Price Written on Your Own Buyer or Seller Card in Column IV. When a transaction has been completed, sellers must go to the Class Transaction Sheet and record the deal, then both buyer and seller turn in their cards to get new cards from the Card Keeper. Make as many deals as possible during each round. When deciding on transaction prices, increases, or decreases in the sale, prices may occur in $.05 or $.10 amounts. After each round of dealing is completed, figure your gains and losses by taking the difference between the Transaction Price and the Price on your Card for each transaction. Figure net gains or losses by totaling Columns V and VI when taking the difference between the totals.

EXAMPLE:

I	II	III	IV	V	VI
Pounds	Product	Transaction Price	Price on Your Card	Gains	Losses
1	Artichokes	40¢	90¢	0	50¢
1	Artichokes	50¢	30¢	20¢	0
1	Beets	60¢	60¢	0	0
1	Beets	80¢	20¢	60¢	0

Total # of lbs. Bought/Sold 4 Total Gain 80¢ Total Loss 50¢ Net Gain/Loss 30¢

(Circle One)

INDIVIDUAL TRANSACTION SHEET

ROUND #1 Want to buy/sell lbs. of beets lbs. of artichokes

I	II	III	IV	V	VI
Pounds	Product	Transaction Price	Price on Your Card	Gains	Losses
1					
1					
1					
1					
1					
1					
1					
1					
1					
1					

Total # of lbs. Bought/Sold____ Total Gain____ Total Loss____ Net Gain/Loss____
(Circle One)

ROUND #2 Want to buy/sell lbs. of beets lbs. of artichokes

I	II	III	IV	V	VI
Pounds	Product	Transaction Price	Price on Your Card	Gains	Losses
1					
1					
1					
1					
1					
1					
1					
1					
1					
1					

Total # of lbs. Bought/Sold____ Total Gain____ Total Loss____ Net Gain/Loss____
(Circle One)

ROUND #3 Want to Buy/Sell lbs. of beets lbs. of artichokes

I	II	III	IV	V	VI
Pounds	Product	Transaction Price	Price on Your Card	Gains	Losses
1					
1					
1					
1					
1					
1					
1					
1					
1					
1					

Total # of lbs. Bought/Sold____ Total Gain____ Total Loss____ Net Gain/Loss____

CLASS TRANSACTION SHEET

Sale Price	Round # 1		Round # 2		Round # 3	
	Artichokes	Beets	Artichokes	Beets	Artichokes	Beets
$1.00						
95¢						
90¢						
85¢						
80¢						
75¢						
70¢						
65¢						
60¢						
55¢						
50¢						
45¢						
40¢						
35¢						
30¢						
25¢						
20¢						
15¢						
10¢						
5¢						

MAKE 36

SELLER CARD

You are selling 1 pound of either artichokes or beets. Try to get the highest price, but you should not take less than _____ ¢ unless you decide to take a loss.

SPECIFICATIONS:

4 SELLER CARDS

at 100¢, 90¢, 40¢, 30¢
(16 cards)

5 SELLER CARDS

at 80¢, 70¢, 60¢, 50¢
(20 cards)

MAKE 36

BUYER CARD

You are buying either 1 pound of artichokes or beets. Try to pay the lowest price possible. You should not pay more than _____ ¢ unless you decide to take a loss.

SPECIFICATIONS:

4 BUYER CARDS

at 90¢, 80¢, 30¢, 20¢
(16 cards)

5 BUYER CARDS

at 70¢, 60¢, 50¢, 40¢
(20 cards)

CONSUMER DEMAND SHEET

ROUND # _____

PURCHASE

-81-

2

lbs. of beets

69

2

lbs. of artichokes

70

CONSUMER DEMAND SHEET

ROUND # 1

PURCHASE

3 lbs. of beets

71

2 lbs. of artichokes

72

CONSUMER DEMAND SHEET

ROUND # 2

PURCHASE

2 lbs. of beets

3 lbs. of artichokes

73

74

CONSUMER DEMAND SHEET

ROUND # 3

PURCHASE

-87-

4

lbs. of beets

75

1

lbs. of artichokes

76

DEMAND, SUPPLY & INCENTIVES TO ACT

Directions: Select the BEST answer. READ EACH ALTERNATIVE CAREFULLY! Logically think your way through each question to arrive at a response that makes sense. You may wish to explain your reasoning after each selection.

1. If the price of computers decreased in the marketplace, you would probably expect:
   A. computer sales to remain the same.
   B. small businesses to invest in computers.
   C. less computer research and development.
   D. banks to decrease their reliance on computers.

2. The film Star Wars was a huge box office success. Because this film made millions of dollars, you probably would expect new film releases to:
   A. turn to more serious subject matters.
   B. deal with true-to-life themes.
   C. explore undersea worlds.
   D. focus on science fiction space adventures.

3. Mr. Baker, the local grocer, has stocked his shelves with grapefruit soda pop and cola soda pop. He charges $.35 per can of pop for both selections. In one day the cola pop is sold out while the grapefruit pop has hardly been touched. Mr. Baker is least likely to do which of the following:
   A. clear more shelf space for cola pop.
   B. charge a higher price per can of cola soda pop.
   C. replace the cola soda pop selection with a fruit punch drink.
   D. reduce the price per can of grapefruit soda pop.

4. Sport shoes have become very popular with young people. This popularity most likely is an incentive for:
   A. shoe manufacturers to make more sport shoes.
   B. shoe salespeople to sell less sport shoes.
   C. shoe repair services to lower repair prices on sport shoes.
   D. retail shoe outlets to stock the same quantities of sport shoes.

5. One reason why supply and demand are interdependent is because:
   A. consumers get bargains from suppliers and suppliers get uncertain information on what to provide consumers.
   B. consumers get services from suppliers and suppliers get first-hand information on what to provide consumers.
   C. consumers get wants from suppliers and suppliers get information on what to provide for consumers.
   D. consumers get cheated by suppliers and suppliers get false information on what to provide for consumers.

LESSON # 7 - LECTURE OUTLINE

Acquiring Information - Is It Worth It?

I. Uncertainty about the future influences consumers choice

II. Uncertainty complicates consumer choices

- A. Record buying
- B. Dating
- C. Purchasing a house
- D. Career changes

III. Consumers acquire information to reduce risk and uncertainty

- A. Record buying
- B. House purchase

IV. Where do people acquire information?

- A. Gather your own information
- B. Ask other people
- C. Talk to suppliers

V. Valuable information is a scarce good for buyers and sellers

VI. Some people provide information as an occupation

- A. Brokers
- B. Real Estate Agents
- C. Advertisers

VII. Acquiring information is a means to reduce uncertainty

LESSON # 7 - INFORMATION HAS BENEFITS & COSTS

PROCEDURES: Decision-Making Inquiry & Demonstration
Lecture
Research Activity
Focus Questions

MAJOR CONCEPTS: Scarce Resources
Uncertainty
Risk
Impulse Buying
Cost of Information
Opportunity Cost

GOALS: The student will be able to . . .

1. explain each major concept in his/her own words.
2. identify factors that promote or hinder impulse buying.
3. identify opportunity costs of gathering information on goods and services.
4. explain how information specialists can reduce costs and increase benefits to consumers.

ECONOMIC GENERALIZATIONS IN THIS LESSON:

1) Consumers avoid impulse buying when the cost of making a purchasing mistake is greater than the cost of acquiring information.
2) Consumers buy on impulse when the cost of making a purchasing mistake is less than the cost of acquiring information.
3) Acquiring information on a good or service requires the use of scarce resources and involves opportunity costs.
4) Information specialists provide valuable services to consumers if they enable consumers to use their scarce resources economically.
5) Advertising is one device used by suppliers to provide consumers with information about products and services.

MATERIALS: 1. Before class begins, draw a grid like the one that follows on the chalkboard.

Box A	Box B	Box C

DIRECTIONS:

1) IN THE LAST LESSON, YOU EXAMINED THE INTERDEPENDENT RELATIONSHIP BETWEEN BUYERS AND SELLERS.

2) IN THIS LESSON YOU WILL EXAMINE THE COSTS AND BENEFITS OF ACQUIRING PRODUCT INFORMATION.

3) a. CONDUCT LECTURE - PART I.

   b. PEOPLE DEAL WITH UNCERTAINTY BY TRYING TO FIND OUT INFORMATION ABOUT PRODUCTS BEFORE MAKING PURCHASES.

   c. BY THE END OF TODAY'S LESSON, YOU SHOULD BE ABLE TO IDENTIFY AND EXPLAIN SOME OF THE COSTS AND BENEFITS OF GATHERING INFORMATION ABOUT GOODS AND SERVICES BEFORE MAKING PURCHASES.

4) Direct student attention to the three boxes labeled A, B and C at the front of the classroom.

   a. Tell students that there is an item for sale under each box.

      Do not respond to any questions that students may ask about the items underneath the boxes.

   b. WHO WOULD LIKE TO BUY THE ITEM UNDER BOX A? UNDER BOX B? UNDER BOX C?

      Record a hand count for each item in the grid on the chalkboard.

   c. <u>Focus Questions</u>

      i. Why aren't many of you willing to purchase the items underneath the boxes?

      [Not knowing anything about the items for sale puts students in an uncertian situation - a risky situation. If a student buys what is underneath a box for an agreed upon price, the student risks not being satisfied with the item for the price paid.]

      ii. What would you like to know about each item before choosing whether or not to purchase it?
      What information would you like to have on each item in order to help you make a wise purchasing decision?

      [Student responses might include knowing what each item is, the price of each item, the name of the manufacturer of each item, the durability of each item, the color of each item, etc.]

      iii. How could knowing additional information help you make a purchasing decision?

d. Tell students that the item under Box A is a T-shirt, the item under Box B is a poster, and the item under Box C is a record album.

(Do not give any additional information on the items.)

e. NOW WHO WILL BUY THE ITEM UNDER BOX A? UNDER BOX B? UNDER BOX C?

(Record a hand count for each item in the grid on the chalkboard.)

f. Focus Questions

i. Why might some of you be more willing to purchase some of the items now?

ii. What makes most of you reluctant to buy any of the products?

iii. What additional information would you still like to know about each item before deciding whether or not to purchase any of the items?
Why?

g. Tell students that the sale price of the T-shirt is $4.00, the sale price of the poster is $2.50 and the sale price of the record album is $5.98. Do not give any additional information on the items.

h. NOW WHO WILL BUY THE T-SHIRT UNDER BOX A? THE POSTER UNDER BOX B? THE RECORD ALBUM UNDER BOX C?

(Record a hand count for each item in the grid on the chalkboard.)

i. Focus Questions

i. Why might some of you be more willing to purchase the items for sale now?

ii. Why might you still want additional information about each item?

iii. What additional information about each item would help you finalize your purchasing decisions? Why?

j. Lift up the boxes so that students can see each item.

k. WHO WILL BUY THE T-SHIRT? WHO WILL BUY THE POSTER? WHO WILL BUY THE RECORD ALBUM?

(Record a hand count for each item on the grid on the chalkboard.)

l. Focus Questions

i. How did seeing the items influence your purchasing decision?

ii. Why are most of you less willing to purchase the items offered for sale now that you have seen them?

iii. How was finding out more information about each item beneficial to you?

iv. What did finding out more information about each item cost you?

It cost time that students could have spent doing something else.

v. Was the time you spent finding out about the items worth it? Why or why not?

vi. If it had taken you 15 hours to find out about the poster, would that time spent researching information have been worth it? Why or Why not?

vii. When might consumers be most likely to buy a good or service on impulse?

viii. When might consumers be hesitant to buy a good or service on impulse?

5) CONDUCT LECTURE - PART II.

6) Emphasize: PEOPLE TRY TO REDUCE RISKS IN THE MARKETPLACE BY GATHERING INFORMATION ON GOODS AND SERVICES.
CONSUMERS GATHER THE INFORMATION THAT THEY FEEL THEY NEED IN ORDER TO MAKE WISE CHOICES IN THE MARKETPLACE.
RESEARCHING INVOLVES COSTS.
CONSUMERS WILL STOP RESEARCHING WHEN THE COSTS OUTWEIGH THE BENEFITS GAINED FROM INFORMATION OBTAINED.

7) CLOSURE: a. Read each episode of WAS IT WORTH IT? and have students respond after each one. Discuss the value of the product, the costs of gaining information and the benefits gained.

[Student responses may differ because individuals place different values on goods and services offered for sale.]

WAS IT WORTH IT?

1. Sue needed to buy a new three ring spiral notebook for school. She really didn't want to spend her money on school supplies and therefore was determined to pay the cheapest price possible for spiral notebooks. Sue called three drug stores to check on the prices, spent a total of five hours looking through the newspaper for sale advertisements on notebooks and stopped in two variety stores near her home before deciding to purchase a spiral notebook from one of the variety stores for $.61.

   Was Sue's research worth it? Were the benefits greater than the costs? Do you think Sue should have gathered more or less information? Why?

   How would you have acted in Sue's situation? Why?

2. Larry wanted a digital alarm clock radio so that he could get up in time to catch the bus for school each morning. One evening as Larry was reading the evening newspaper, he saw a department store advertisement announcing a clearance sale on a specific General Electric solid state digital clock radio that was last year's model. Larry went to the department store and found that the clock was brown in color, had AM radio channels, lit up at night and had a sixty day warranty. The clock was on sale for $21.95. Larry decided to buy one on the spot.

   Was Larry's research worth it? Were the benefits greater than the costs? Do you think Larry should have gathered more or less information? Why?

   How would you have acted in Larry's situation? Why?

3. Tom was in the market for a new baseball mit. He was afraid that his old mit wouldn't make it through the upcoming season. One day Tom looked up sporting goods stores in the phonebook, called each store to see if they carried baseball mits, then visited three of the stores that sounded as if they had the best selection of mits. Tom asked the sales people questions about the different mits, then went home to sleep on his decision. The following day Tom went back to one of the sporting goods stores and purchased a mit with which he felt comfortable. The mit cost Tom $65.00, and he felt that he would be able to get good use out of it for at least 8 to 10 years.

   Was Tom's research worth it? Were the benefits greater than the costs? Do you think Tom should have gathered more or less information? Why?

   How would you have acted in Tom's situation? Why?

LECTURE NARRATIVE: ACQUIRING INFORMATION - IS IT WORTH IT?

Part I

So far, in your study of choosing in the marketplace you have learned that everyone economizes. In the process of making choices, you should identify the alternatives, weigh them according to your individual criteria and then do what is most satisfying to you. Seems easy. So why do people have so many problems? Why do consumers become exasperated or why do businesses file for bankruptcy? Are people stupid or ill informed or both? Actually, another answer gives us more insight. The answer is uncertainty. We never know exactly what will happen in the future and that uncertainty can cause problems for consumers and suppliers when it comes to making choices in the marketplace.

Part II

It is difficult to overestimate the complications that uncertainty introduces into the consumer's world. Economizing means sacrificing one valued opportunity in the expectation of achieving more satisfaciton in another way - giving up one thing for another. But, in an uncertain world, expectations often turn out to be mistaken. Now, suddenly, every decision is a risk and consumers spend much of their time and energy (scarce resources) trying to control this risk.

Consider some of these examples. Have they ever happened to you? You decide to buy a Bruce Springsteen record, take it home, play it and are terribly disappointed, realizing that a Linda Ronstadt record would be more enjoyable.

You sign up for an elective course (economics or physics), and then

discover that you are learning very little or working harder than you expected. Consequently, you wish that you had chosen photography or auto mechanics instead.

You choose to spend Friday evening on a movie date, but the date and the movie are boring. Now, you wish you had made a different decision.

A person or a couple buys a house to live in and decides within a short time that it is a very unpleasant place to live.

A lawyer concludes in the middle of his or her career that engineering would have paid much better or provided more personal job satisfaction.

Mistakes like these upset our satisfaction and make us wary consumers. Because mistakes reduce satisfaction, people try to avoid them by acquiring more or better information before they make their choices. While there are many ways to acquire information, most of them share a common characteristic. They are costly.

For example, record buyers attend concerts, read reviews, talk to friends, or even listen to the records they're thinking of buying before they make their purchases. Acquiring information by these methods all have costs. Concerts cost time and money. Time spent reading reviews, talking with friends and listening to records is a scarce resource. How many scarce resources should be used to acquire information is an important question for consumers to answer. Sometimes it makes sense to acquire more information before choosing; and sometimes it does not. Consider some of the costs involved in acquiring information.

Before choosing an elective course, students talk to counselors and to other students. But, since people differ and circumstances constantly change, the information gathered in this way may not be reliable. The most reliable information about a course can be obtained by auditing it, but this is a very

costly way to acquire information. The information may not be worth the cost of the time and effort.

People considering purchasing a house usually spend time and energy acquiring information prior to making a decision. Most likely, they will go through the house carefully several times and may even pay a knowledgeable builder to inspect the house for them. These information-acquiring activities are costly in time and money. Why do they do it? Because the cost of making a mistake is very great when purchasing a house. That's why people usually don't buy houses "on impulse." It is quite different when buying some clothing or a record, because the cost of a mistake is much less.

How much information should we acquire before making decision? There's no right way to answer that question because it varies from individual to individual and circumstance to circumstance. You can waste a lot of time acquiring useless information. Unfortunately, consumers usually don't know that until it's too late and they've wasted their time acquiring useless information.

The problem is illustrated by this question: How much time should you spend searching for a $10 bill that you've lost? No time at all if you aren't going to find it. But what if you're unsure of finding it? What do you do? If you have no idea where it was lost, you will not search very long. Why? Because your expectation is that you will not find it. But what if you lost it in your bedroom? Then you will search longer because you believe you have an excellent chance of eventually finding it.

Another way to gain valuable information is to acquire it from other people. Some people specialize in providing information to consumers. It's economical to use their services if we believe that the information they offer will enable us to use our own scarce resources more economically.

For example, people buying clothes usually don't know exactly what they want. They look around at the clothing stores to see what is on display and, by learning what's available, get a better idea of what they want. They're acquiring valuable information. The store owner specializes in providing that kind of information. Store owners don't maintain large inventories out of kindness--they do it to attract potential customers.

Store owners offer other kinds of information, too. "Will this shrink?" you ask the store owner. "No, it won't," is the answer. Can you trust that answer? What if the owner is trying to cheat you by giving out false information? Is this likely to be the case? Not usually. Dissatisfied customers tend to bring items back and demand a refund. Moreover, store owners don't want potential customers to think they deceive customers. That's bad for their business. So they do tend to tell the truth especially if they are interested in future business. Knowing this suggests a good rule for consumers to heed: Have more confidence in the information provided by sellers who plan to stay in business at that location for a long time.

Valuable information is a scarce good for sellers as well as for buyers. Sellers would prefer to supply goods that will fulfill all the expectations of buyers because they know that satisfied cutomers mean future business. But sellers can't know all the expectations of buyers, just as they can't know all of the answers to consumer questions about the quality of their products. They don't have infallible crystal balls to see the future any more than consumers do.

People who try to help both producers and consumers are called "middlemen" or "brokers." Brokers specialize in putting buyers and sellers in contact with one another. These people provide a service to buyers and sellers by telling buyers what sellers have to offer and telling sellers what buyers are

interested in purchasing. A clothing store owner is just such a broker between people who design and produce clothing and consumers who finally wear it.

Another example of a broker is the real estate agent. Real estate agents serve house sellers by finding people who are interested in buying that house, and they serve buyers by finding homes for them to purchase. Real estate agents find people interested in the particular homes that sellers wish to sell. The agents know about houses for sale all through the area and, by providing this information to buyers, enable them to get more satisfaction for their money than the buyers could obtain by acting on their own. As a result, a real estate agent may enable sellers to obtain higher prices and buyers to obtain lower prices. Of course, if the right seller and the right buyer had found each other on the own, they could have saved the real estates agent's fee. Such an occurrence is unlikely though, which is why most people use real estate agents when buying or selling houses. Good information is hard to acquire.

Often consumers turn to advertisements to help them acquire information on goods and services in the marketplace. Do advertisements provide valuable informa-

tion? The answer is that some advertising provides valuable information, and some undoubtedly does not.

Consider some of the advertising that is obviously considered valuable by consumers, because they choose to use it. People look in the Yellow Pages. They consult the movie advertisements in the newspaper. They read announcements of sales. This information helps them get more satisfaction for their time and money.

On occasion, advertising can be valuable information to some people and a distracting nuisance to others. A highway billboard which mars the view for one driver tells another driver about a good spot to have lunch. Remember, people

differ and react differently to the same circumstances.

As a consumer, you'll want to notice how people (suppliers and consumers) differ. Some stores, such as prestigious clothing stores, acquire careful information about the goods they sell, reveal what they know to shoppers, take time to ascertain the tastes and preferences of potential customers, and offer full refunds in the event of dissatisfaction. Does that enable customers to economize more effectively? It does for some, but not for all. Those services are costly to the stores, and are only likely to be provided if their cost can be recovered through higher prices. Some consumers are willing to pay for those services and so they receive them. Others don't find them worth the cost and so shop somewhere else, where prices are lower.

When people are economizing, they are trying to maximize their scarce resources by getting as much satisfaction from those resources as possible. We can economize more effectively when we have better information. But information itself is a scarce good. As a result, we all make mistakes at times, mistakes that we could have avoided had we gotten more information. But we didn't get the information because we decided it just wasn't worth our while. If we decided, on the other hand, never to act until we had enough information to be sure we weren't making a mistake, we would almost never act. We wouldn't get much done or find very much satisfaction in life. What we can do as consumers and what we in fact do is use the information provided by suppliers. Some suppliers are information-providing specialists. And almost all suppliers provide some kind of information about their products, whether through advertising, carrying inventories, or offering advice. Of course, this information may not be altogether reliable. But that's the way the world is. Uncertainty is an inescapable fact of life.

LECTURE NARRATIVE: COSTS AND BENEFITS OF QUALITY IMPROVEMENTS

Consumer protection and improvements in consumer products and services are important issues in today's world. As citizens, we insist that consumers not be treated in a fraudulent manner or sold defective, dangerous products. It seems unquestionable that these goals should be pursued, but even here, the economic way thinking, the economizing perspective, should warn you that things are not as easy or clear-cut as they seem.

Almost anything can be improved. Almost everyone could use more protection. Those are not the economic issues. The important question here is whether the benefits from the improvement or protections are worth the costs of improvement or protection. Most high school basketball players would prefer to be an inch taller, but how many of them are willing to spend ten hours on the torture "rack" being stretched by mechanical devices until their joints are more loose and bodies slightly elongated? Very few would see the benefits outweighing the costs.

So it is with consumer decisions. Consumers pay close attention to costs and benefits when they see the full costs of the improvement. For example, we may buy improved stereo equipment but only when we expect the added listening pleasures to be worth more than the additional costs. We informally weigh the costs and benefits before we make our decision and rarely buy the very best system available. For most people, the cost is greater than the benefit received.

Under special circumstances, our attitudes change. We insist strenuously on some improvements when we expect someone else to pay the costs for the benefit we intend to receive. For example, when your parents pay the full costs of improving your wardrobe, you are more likely to conlcude that you "need" a

better pair of jeans than if you were paying for the jeans yourself.

Adults act in the same manner. If every local neighborhood received the "improved police protection" its residents demand, the total city budget for police protection would be far greater than what those neighborhoods are willing to pay in taxes. We usually assume that all taxpayers will share the cost of police protection so that we will only have to bear a tiny portion. With the cost to ourselves very low, we then insist that we "need" much more than we're currently receiving.

It isn't just selfishness operating here. Sometimes we're just badly informed. We call for improvements because we don't realize that these improvements will mean increased future costs for us to bear. The result is often "improvements" that don't really improve the situation for anybody because the benefits did no. outweigh the costs.

Let's consider a series of consumer choices where the cost/benefit questions are most obvious.

Wouldn't it be an improvement if physicians never prescribed surgery in cases where the surgery might have worse side effects than the condition it cured? Not necessarily. We just can't know for certain about side effects. Sure, we could learn about some possible side effects through additional testing. But tests are a cost to the patient. They cost in money, inconvenience, discomfort and even danger associated with the testing procedure. Suddenly an issue that seemed too easy to resolve has become a more complex problem as we carefully assess the costs and the benefits.

Do we want manufacturers of rotary blade lawnmowers to make them so operators cannot get their hand in contact with the moving blade, no matter what foolish thing they do? Would this be an improvement in the product? The cost of manufacturing would rise and mowers would become far more expensive. The

mowers would probably also run less well because the improvements would hinder operation and make them bulkier and harder to use. Now, how do we decide if the improvements were worth the added cost to consumers? We can't do it by only paying attention to the benefits from the so-called improvements. The question we have to ask is whether consumers value those benefits enough to give up the required money and ease of operation to obtain mowers. If consumers are still willing to pay the cost and purchase the same number of mowers, then the improvement was worth it to consumers. If mower purchases drop as a result of these changes, then the improvement was not worth it to consumers.

Should the Food and Drug Administration (a government agency that is concerned with the safety of drugs) make certain that all prescription drugs are safe before they can be sold in the U.S.? To determine safety, tests are required. Additional rests reduce the risk (uncertainty) of suffering or death from unanticipated side effects. But additional tests also involve higher costs and keep the drug out of use for a long time, thereby increasing the amount of suffering and pain that occurs among patients who would be helped by the drug when it becomes available. Consider the consequences to people who are allergic to bee stings if a drug was available to prevent such an allergic reaction. Consider the consequences to them if the drug cannot be sold because complete testing has not been finished. Who is most likely to favor early availability of this drug - someone allergic to bee stings or people who have no reaction to bee stings?

Because people differ enormously in what they know, in what they prefer, in what they can do and in so many other respects, it's extremely difficult for anyone, no matter how wise and benevolent, to make the best decisions for everyone.

LECTURE NARRATIVE: COSTS AND BENEFITS OF CONSUMER PROTECTION LAWS

Consumer protection laws are primarily designed to protect consumers against dangers. But, just like quality improvements in products and services, consumer protection laws and the enforcement of those laws have costs as well as benefits.

For example, the 1970 Poison Prevention Packaging Act required that potentially dangerous drugs be sold in containers with "child-proof" caps. Children were intended to benefit from this protection. Did this law impose a significant new cost on anyone? In analyzing this case, we find the cost of making the child-proof caps is negligible, but the cost to an elderly patient with arthritic fingers of getting the cap off may be quite high. This person may evade the law by shifting the drugs to another container with a lid that could be easily removed. But is this an evasion of the purpose of the law? Is it an evasion if there are no children living in the elderly person's home? Difficult questions to answer. Each new consumer law solution will tend to bring with it new questions or problems to wrestle with. For instance, should the Consumer Product Safety Commission (a government agency concerned with the safety of products) permit reversible medicine caps, so that households with children can have a child-proof cap while elderly people can enjoy the convenience of twist-off caps? Or should the Commission prohibit reversible caps on the grounds that everyone will use the twist-off caps? Or should the Commission prohibit reversible caps on the grounds that everyone will use the twist-off cap and thereby endanger more children? Is there a single best answer to that question? The problems seem endless. Should a hundred sensible people be penalized with child-proof caps to prevent one foolish person from doing harm? Each issue raises important questions about costs, benefits, choices and

imposed solutions.

Should all mattress manufacturers be required to construct mattresses from flame resistant material so that a lighted cigarette laid on the mattress will go out without igniting the mattress? This will impose costs in the form of more expensive mattresses upon non-smokers while they receive no benefits from the actions. Is the cost worthwhile as long as it saves some lives each year? But if that question is answered yes, couldn't we save even more lives at lower cost by prohibiting all smoking in bed? Certainly, but such a law would be almost impossible to enforce. So, the solution is to impose costs on many safety-conscious people to protect the lives of other people who don't pay enough attention to safety.

If we require all owners of apartment buildings to install smoke alarms, will all apartment dwellers be protected by smoke alarms? It's not that simple. Some tenants will disconnect the alarms so they won't go off in response to heavy cooking or tobacco smoke. Is that foolish of them? Don't such people value their own lives? Actually, they are deciding that they prefer to accept a slight additional risk to their lives in order to cook smokey dishes or have a party with the windows closed. They are economizing and making choices based on their own individual criteria. Laws don't always change behaviors in the ways that we hoped for when we passed them.

A law can require that manufacturers describe the dangers associated with the use of a power tool and suggest the best procedures for safe operation. But is that enough? Some people won't read the safety rules. Should people who want to buy a power saw therefore not be allowed to leave the store with it until they have passed some kind of exam, such as the one people must take to get a driver's license? This is possible, of course; but it is highly unlikely that consumers would accept this type of restriction on their behavior. It

would cost consumers more time (to take an exam) and more money (to pay for forms and additional employees needed to administer the exam).

A hard fact of life may be that people who behave foolishly cannot be fully protected by law or by other people against the consequences of their own foolishness. Remember, too, that people don't always agree on what is foolhardy or dangerous. People differ. To some people, it is absolutely suicidal to hurtle down an icy mountain with feet strapped to long, thin boards. Others love to ski. Many consider it intolerably foolish to ride a motorcycle without a helmet; others think that riding a motorcycle under any circumstances is too dangerous; but some find the excitement, the convenience, and perhaps the economy of the motorcycle well worth the added danger. Some people won't fly in airplanes, even though statistics show most automobile trips are more dangerous.

You can see that there are no easy answers when it comes to deciding which protections or changes are worth the costs. A change is not an improvement if its costs are greater than its benefits. Keep in mind that the consequences of a change, which we can never accurately predict, will affect people in very different ways because each person has different sets of values. That's why laws and regulations which are across-the-board rules, can never be an adequate substitute for the good sense and intelligent choices of individual consumers.

APPENDIX

COMPREHENSION TEST
FOR

CHOICES IN THE MARKETPLACE

Test Booklet #_____

DIRECTIONS: READ CAREFULLY! DO NOT WRITE IN THIS TEST BOOKLET.
RECORD ANSWERS ON THE ANSWER SHEET.
There are _____ total possible points on this test.

MATCHING - Match definitions in Column II with the terms in Column I. Each term has only one definition. Write the letter of the definition on your answer sheet. (___ points possible per answer)

Column I	Column II
1. allocation	A. a device that rations goods and services in the marketplace.
2. benefits	B. Alternatives.
3. consumer	C. An alternative given up when a choice is made.
4. economize	D. Created by advertising.
5. impulse buying	E. Distribution of goods and services.
6. incentives	F. Feeling that a desirable outcome has occured.
7. opportunity costs	G. Motives that influence behavior of individuals.
8. price	H. Not having enough of a good or service to satisfy consumer demand in the marketplace.
9. risk	J. One who provides goods or services in the marketplace.
10. satisfaction	K. One who buys goods or services in the marketplace.
11. scarcity	M. Purchasing "on the spot."
12. shortage	O. Taking a chance on something that is not certain.
13. substitutes	R. The ability of consumers to save money.
14. supplier	S. to gather information on products before making purchases.
15. surplus	T. To make choices in the marketplace.
	U. Useful gains or improvements.
	W. When goods or services are still abundant in the marketplace after all consumer demand has been satisfied.
	Z. When limited resources cannot fulfill unlimited wants.

MULTIPLE CHOICE - Select the BEST answer. READ EACH ALTERNATIVE CAREFULLY! Logically think your way through each question to arrive at a response that makes sense! (___ points possible per answer)

16. Which of the following is the BEST definition for the term resources?

A. Things that can be used to ensure sales or profits.
B. Things that can be used to stop manufacturing or production.
C. Things that can be used to provide or maintain stability.
D. Things that can be used to make or obtain items of value.

17. To economize means:

A. to cut back by eliminating unneeded purchases in the marketplace.
B. to choose between a variety of available options in the marketplace.
C. to conserve available resources when manufacturing products in the marketplace.
D. to save time and energy by researching before making purchases in the marketplace.

18. Suppose that you have just earned $17.00 doing yardwork. You know that you want to go to the movies (which costs $5.00), you want a new pair of jeans (which costs $16.00) and you also want a new rock and roll tape (which costs $6.98). You choose to buy the jeans. Which of the following concepts is NOT illustrated in the above situation?

A. Scarcity.
B. Limited resources.
C. Impulse buying.
D. Choice.

19. Consumers choose differently in the marketplace mainly because:

A. consumer shopping centers have different locations.
B. consumer happiness depends on prices.
C. consumer individuality is cherished.
D. consumer satisfaction is individually determined.

20. Which of the following examples BEST illustrates opportunity cost?

A. Jim went to the football game instead of the movies.
B. Jim did not buy a record album because he didn't like it.
C. Jim went to visit his cousin because his parents forced him to go.
D. Jim did not buy a shirt because it was torn.

21. You went to a baseball game and had $2.00 to spend on snacks. You bought a Bag of Popcorn for $.55, a Soft Drink for $.60 and an Ice Cream Cone for $.35 instead of the Colossal Hot Dog for $1.85. What was your opportunity cost?

A. The Colossal Hot Dog.
B. The Bag of Popcorn.
C. The Soft Drink.
D. The Ice Cream Cone.

22. The price of a product offered for sale measures:

A. the manufacturing cost of that product.
B. the quality of that product.
C. the durability of that product.
D. the value of that product.

23. Consumer demand is:

A. the ability and willingness of consumers to control prices in the marketplace.
B. the ability and willingness of consumers to find bargains in the marketplace.
C. the ability and willingness of consumers to make purchases in the marketplace.
D. the ability and willingness of consumers to throw away unwanted items in the marketplace.

24. How do most individuals determine whether a product is worth the price?

A. Consumers will compare the price of the product with the amount of savings they have in the bank.
B. Consumers will estimate the length of endurance of the product compared to other products.
C. Consumers will measure the size of the product with the size of similar products.
D. Consumers will weigh the amount of personal satisfaction to be gained from the product against the price.

25. The value of a product is:

A. the true worth of the product.
B. the price that a consumer will pay for the product.
C. the cost of making the product.
D. the number of hours it takes to distribute the product.

26. Chicken generally costs $.89 per pound, hamburger generally costs $1.59 per pound and steak generally costs $3.98 per pound. The prices on these food items BEST illustrate how:

A. prices can indicate which products will be difficult to find in supermarkets.
B. prices can prohibit poor people from buying steak.
C. prices can increase the amount of profit that cattle ranchers make.
D. prices can measure how much consumers value different products.

27. Sam loves to play tennis and has had his eye on the new Bjorn Borg autographed racquet that has just been introduced on the market. This new racquet costs $125, and Sam decides to buy the racquet despite the high price. In this case, the price has primarily acted as:

A. a method of rationing a product.
B. a method of storing a product.
C. a method of measuring a product.
D. a method of promoting a product.

28. The value of a product is determined by:

A. suppliers who set the prices.
B. consumers who make the purchases.
C. brokers who arrange the deals.
D. advertisers who promote the products.

29. Both suppliers and consumers economize in the marketplace. Suppliers most commonly economize by:

A. trying to manufacture products as cheaply as possible.
B. cutting back on the quality of materials used in production.
C. deciding to offer products for sale that will bring in profits.
D. circulating opinion questionnaires to find out what consumers desire.

30. Which of the following statements BEST describes the interdependent relationship between consumers and suppliers?

A. Consumers influence what products are offered for sale by making purchases and suppliers help consumers fulfill wants.
B. Consumers influence the safety of products offered for sale by making purchases and suppliers set prices.
C. Consumers influence the quality of products offered for sale by writing to manufacturers, and suppliers determine costs.
D. Consumers influence new products offered for sale by creating fads and suppliers have special clearance sales.

31. Suppliers primarily decide which goods and services to offer for sale in the marketplace by:

A. watching how long it takes consumers to make choices between goods and services.
B. keeping accurate records of price increases on goods and services.
C. recording the time it takes to develop goods and services.
D. noticing which goods and services consumers are buying.

32. Popcicle Joe the ice cream man has been stocking his truck each day with 50 vanilla ice cream bars, 50 fudgecicles and 50 grape popcicles. All selections cost $.35. At the end of each day this week, Joe has had 49 grape popcicles left, 25 fudgecicles left and no vanilla ice cream bars left. Joe is most likely to do all of the following EXCEPT:

A. make more room in his truck for vanilla ice cream bars.
B. charge a few cents more for vanilla ice cream bars.
C. replace the grape popcicles with fudgecicles.
D. reduce the price of grape popcicles.

33. The Community Swimming Pool has always been crowded. The admission price for swimming in the pool recently increased from $.50 to $1.25. You would most likely expect that:

A. the pool will need to add more dressing room facilities.
B. the pool will remain open longer into the fall months.
C. some people will run through their sprinklers instead of going to the pool.
D. additional life guards will have to be hired at the pool.

34. Ms. Johnson owns and operates a laundromat that is open from 9:00 a.m. to 5:00 p.m. Monday through Friday. For the past two months she has noticed that all of the washing machines and dryers are used continuously. Sometimes customers must wait in line to get a machine. Ms. Johnson is most likely to do all of the following EXCEPT:

A. set up a stereo system so that those people waiting can enjoy music.
B. extend the number of hours that the laundromat stays open.
C. install additional washing machines and dryers.
D. charge a slightly higher price for the use of the machines.

35. Uncertainty causes suppliers and consumers some discomfort mainly because:

A. neither suppliers or consumers can control truthful advertising in the marketplace.
B. neither suppliers or consumers can determine fair prices in the marketplace.
C. neither suppliers or consumers can influence product quantities in the marketplace.
D. neither suppliers or consumers can be sure of satisfying results in the marketplace.

36. Consumers usually try to gather information on products or services in the least expensive and least time consuming way mainly because:

A. consumers who wait to make purchases find that items they want become scarce.
B. spending money to get information will eventually make free information difficult to find.
C. opportunity costs increase as time and money spent researching increases.
D. suppliers don't always tell the whole truth about the products they offer for sale.

37. Gathering information on a good or service involves costs mainly because:

A. time and money spent researching is expensive.
B. time and money spent researching is forfeited.
C. time and money spent researching is reduced.
D. time and money spent researching is wasted.

38. Jake is in the market for a motorcycle. He will probably try to gather some information on motorcycles before making his purchase primarily because:

A. making a purchasing mistake would be costly.
B. learning about motorcycles would give him confidence when operating one.
C. gathering information would satisfy his curiosities about motorcycles.
D. researching a product is necessary for making wise purchases.

39. People usually never gather a comprehensive or complete list of all possible information on a product before making a purchase primarily because:

A. at some point in time there is no more information to be found.
B. at some point in time consumers run out of questions to ask manufacturers.
C. at some point in time the opportunity costs of research outweight the benefits gained from research.
D. at some point in time new information will be published which might influence decision-making.

40. Paul was in the market for a poster and found one that he liked for $1.50. However, he was concerned that the poster he had found might fade in color after it had hung on the wall for several weeks. In order to find out what kind of ink was used in the printing of the poster, Paul would have had to go to the public library to look up the address of the manufacturer, write to the manufacturer asking about ink quality, then wait for two to four weeks for a response or contact the manufacturer by making a long distance phone call. Most likely Paul decided to just go ahead and purchase the poster without doing any research because:

A. the costs of research were greater than the benefits.
B. the benefits of research were greater than the costs.
C. the costs of research were less than the benefits.
D. the benefits of research were equal to the costs.

* 41. Many people have complained that the material used to make Brand X-tra Special Designer Jeans is of poor quality and quickly wears out. When customers began to buy other brands of jeans, Brand X-tra Special decided to improve their jeans by using better materials. Which of the following occurances is most likely to accompany the quality improvement in Brand X-tra Special Designer Jeans?

A. The jeans will be too expensive.
B. The Jeans will cost more than before.
C. The jeans will not wear out.
D. The jeans will fit better than before.

* 42. A majority of citizens of Lakeview City have voted to construct a new waterfront park in their town. The park will be paid for by increasing the sales tax on all items bought and sold within the city limits. The new park is most likely to benefit:

A. everyone equally.
B. those who pay the increased sales tax.
C. those who use the new park.
D. those who voted to construct the park.

* 43. Consumer Protection Laws are:

A. rules intended to protect suppliers from unsatisfied customers.
B. rules intended to increase the safety of products.
C. rules intended to establish fair prices on certain products.
D. rules intended to provide consumers with warranty protections.

* 44. A consumer protection law requiring that all furniture be made of fire resistant materials would most likely:

A. guarantee that less fires would start from cigarettes.
B. promote safety measures in the manufacture of other products.
C. reduce the costs of maintaining fire department services.
D. create additional expenses for people purchasing furniture.

* 45. The BEST reason for NOT enacting a consumer protection law would be if:

A. the enforcement procedures were too simple to save very many lives.
B. the enforcement procedures were more costly than the satisfaction received from the protection.
C. the enforcement procedures were annoying to the majority of the population.
D. the enforcement procedures were easy to carry out but difficult to explain to others.

COMPREHENSION TEST ANSWER SHEET

Name _____

MATCHING
(___ points per possible answer)

1._____
2._____
3._____
4._____
5._____
6._____
7._____
8._____
9._____
10._____
11._____
12._____
13._____
14._____
15._____

MULTIPLE CHOICE
(___ points possible per answer)

16._____ 31._____
17._____ 32._____
18._____ 33._____
19._____ 34._____
20._____ 35._____
21._____ 36._____
22._____ 37._____
23._____ 38._____
24._____ 39._____
25._____ 40._____
26._____ 41._____
27._____ 42._____
28._____ 43._____
29._____ 44._____
30._____ 45._____

CHECK YOURSELF! YES ✓

Have you read directions and all items carefully?	
Have you completed all questions that you left and meant to go back and finish?	
Have you re-read this test to catch any careless oversights?	

COMPREHENSION TEST ANSWER SHEET

Name _____

MATCHING
(___ points per possible answer)

1. E
2. U
3. K
4. T
5. M
6. G
7. C
8. A
9. O
10. F
11. Z
12. H
13. B
14. J
15. W

MULTIPLE CHOICE
(___ points possible per answer)

16. D	31. D
17. B	32. C
18. C	33. C
19. D	34. A
20. A	35. D
21. A	36. C
22. D	37. B
23. C	38. A
24. D	39. C
25. B	40. A
26. D	41. B
27. A	42. C
28. B	43. B
29. C	44. D
30. A	45. B

CHECK YOURSELF! YES ✓

Have you read directions and all items carefully? ☐

Have you completed all questions that you left and meant to go back and finish? ☐

Have you re-read this test to catch any careless oversights? ☐

TEST ITEM ANALYSIS

Directions: For each item in the pre/post test, indicate the number of students who made a correct response on the test question.

Pre-test	Post-test
1._____	1._____
2._____	2._____
3._____	3._____
4._____	4._____
5._____	5._____
6._____	6._____
7._____	7._____
8._____	8._____
9._____	9._____
10._____	10._____
11._____	11._____
12._____	12._____
13._____	13._____
14._____	14._____
15._____	15._____
16._____	16._____
17._____	17._____
18._____	18._____
19._____	19._____
20._____	20._____
21._____	21._____
22._____	22._____
23._____	23._____
24._____	24._____
25._____	25._____
26._____	26._____
27._____	27._____
28._____	28._____
29._____	29._____
30._____	30._____
31._____	31._____
32._____	32._____
33._____	33._____
34._____	34._____
35._____	35._____
36._____	36._____
37._____	37._____
38._____	38._____
39._____	39._____
40._____	40._____
41._____	41._____
42._____	42._____
43._____	43._____
44._____	44._____
45._____	45._____

Number of students _____

Teacher's name

School

TEACHER READING

ECONOMICS

of

CONSUMER

DECISION MAKING

by

Paul Heyne

Department of Economics
University of Washington

LECTURE I

Economic Generalizations

1) All consumers face the scarcity problem because their limited budgets prevent them from purchasing all the products and services they want to purchase.

2) Scarcity forces consumers to choose among alternatives to gain economic satisfaction.

3) Substitutes exist for nearly all products and services providing alternative ways for consumers to gain economic satisfaction.

Major Concepts

Scarcity

Choice

Substitutes

Costs

Resources

Lecture Narrative - Why Must You Choose?

What to buy? How much to save? Where to get a job? How to find enough time and money to enjoy life? These questions confront everyone each day. In the process of making these decisions, we are economizing. Everyone economizes, because everyone must come to terms with Scarce Resources.

Definitions

What does the phrase "to economize" mean and exactly what is a scarce resource? Very simply, to Economize is to choose which goods and services to obtain with your limited resources. It does not necessarily mean to cut back, conserve, or go without things. And a Scarce Resource is anything which helps us gain satisfaction but is limited in its availability.

Example I

That statement may sound abstract, but it is the stuff of everyday life.

Imagine you see a record you would like to have, selling for $8. Will you buy it? Not immediately, because suddenly you have a problem, a scarcity problem in the form of the limited money (scarce resource) available to you. If you buy the record, you may have to postpone the purchase of some new jeans that you also want. Suddenly you are facing an ECONOMIZING QUESTION. Will your scarce dollars (resources) yield you more satisfaction by purchasing a record or by being set aside to help buy a new pair of jeans? Whatever option is chosen, you will gain something you value as well as lose something you value.

Example II

Of course, economizing can become more complicated than this simple example suggests. Many choices are constantly available to us. Deciding to buy a record, instead of clothes, raises other economizing choices. You must still choose among records. Will a Bruce Springsteen or a Linda Ronstadt record give you more satisfaction? You'd like to buy both, but your scarce resources (money) force you to choose between them. If you decide on Bruce Springsteen, you may still have economizing choices to make. For example, should you buy his most recent record for $8 or two older releases on sale at 2 for $8? Or, to add another complication, suppose you've bought the record and taken it home. An hour remains before dinner. Should you use that hour to do your homework or to listen to your new record? Which will yield the greater satisfaction? Now the scarce resource has changed. It is no longer money, but time limitations that force you to choose between the alternatives.

Everyone Economizes

Earlier it was stated that everyone economizes; but is that statement completely accurate? Some people are so wealthy they can purchase anything they want without feeling a sacrifice. Well, it's certainly true that they won't have to economize as carefully as other people. But even the wealthiest people in the world don't have enough time available to satisfy all their wants. Therefore they must economize in their use of the scarce time resource in order to achieve the greatest possible satisfaction of their wants.

Satisfaction

Here's another related point worth thinking about. As people become wealthier, they become aware of and accustomed to new ways to gain satisfaction. More opportunities open up for them, but taking advantage of one opportunity requires them to sacrifice other valued opportunities. Is this why increasing one's wealth doesn't seem to produce increasing satisfaction in any regular and consistent way? Can you think of situations where increased wealth might lead you to be more dissatisfied?

Example III

The increasing popularity of professional football is another example of the scarcity problem and economizing. When live, color television broadcasts of football games became available, did a football fan's time become more or less scarce? It probably became more scarce. Sunday afternoon relaxation is impossible for some football fans during the NFL season, because they don't want to miss the action. Even staring at the tube without a break doesn't solve The Economizing Problem because watching one channel means they must give up the satisfaction obtained from watching the game on the other channel. Frustrating! So much is available to us that we must Economize.

Example IV

The automobile presents the same problem. It takes us where we wish to go quicker than horse and buggy, but did it make time less scarce? Probably not, because now we can travel to so many different and distant places that we're forced to choose among them!

Example V

Now consider this characteristic. We economize by choosing what we want, and we also economize by choosing how we will try to get it in the marketplace. In other words, economizing occurs when choosing among alternative ends and among alternative means. Let's consider an example that deals with food and drink. A hungry, thirsty traveler with $1 stops at a drive-in and has to choose between satisfying his hunger or quenching his thirst. But far more economizing

choices are involved because there are many ways to satisfy those wants. So our traveler must choose among alternative means to achieve either satisfaction. Also, while thirst-quenching may yield more satisfaction than hunger relief, and a soft drink may yield more thirst-quenching satisfaction than water, it is also the case that drinking water (no charge) rather than a soft drink to quench the thirst will leave resources available to satisfy the other want, relief from hunger.

Substitutes

Substitutes are products or services that can provide similar satisfaction to consumers. Examples of substitutes are butter and margarine, honey and sugar, water and soft drinks, heating oil furnaces and wood stoves. Try to think of substitutes that exist for your favorite purchases. They play an important part in your decision making. Almost all economic goods have substitutes. To economize is to choose among substitutes. There is a larger range of available substitutes than we usually realize, so it is important for consumers to investigate this subject and develop an awareness of these alternatives.

Example VI

Consider this familiar situation. You come racing into the kitchen on a school-day morning, and say: "My alarm clock didn't go off, and I'll be late for school. You have to give me a ride to school today." Is this an accurate statement? Do you have to be driven? Are there any possible substitutes for a ride to school this morning? Actually, there are quite a few. For instance: dressing more quickly; skipping breakfast; walking very fast; being late.

Students are not the only people who don't recognize available substitutes. Consider the answer your parent might give: "I can't take you this morning. I don't have time." That reply isn't quite accurate either, because the parent does in fact "have time." But the parent is saying that time spent going past the school would be time not available for some other more highly valued use.

Individual Differences

Here's an important point to keep in mind as you develop an economic way of thinking. People differ in the values they assign to the satisfaction of particular wants. "Not being late to school" and "not being late to work" are both valued differently by student and parent. People's choices among substitutes are based on their own set of values. As a student, you don't have a clear sense of what it means for your parent to be late to work. But you know very well why you don't want to be late for school. Now this does not mean people are completely selfish and refuse to empathize with others. Individuals usually do consider the values of others, so the parent may decide to use the scarce time to drive past the school so you won't be late. In like manner, you will be more careful to plan your time so you don't intrude on your parent's scarce time very often. The important lesson here is that individuals, considering the same alternatives (substitutes), will make different choices, reasonable, rational choices, because they value the alternatives differently. This difference does not arise from meanness, ignorance or lack of intelligence. It arises from different values held by individuals.

Implied throughout these examples is another important realization that one acquires when using the Economic way of thinking. All choices involve costs. For everything gained, something must be sacrificed. The real cost of a choice is not the money given up, but the value of the opportunity foregone (sacrificed) by making that choice. Remember the examples used earlier. What was the cost of choosing the Bruce Springsteen record? The cost to the traveler of ordering a hamburger? What will be the cost to the student with the unreliable alarm clock of choosing to eat breakfast? In each case, the cost is the value of the satisfaction that has to be sacrificed, or foregone, or given up. The real cost of a choice is the value of the opportunity that would have been seized had that particular choice not been made. And so economists say that real costs are "opportunity costs," defined as the value of the opportunity sacrificed or foregone by an economizing choice.

Take some time now to identify some opportunity costs in your life. What is the "cost" of attending class? What is the cost of a summer job? What is the cost of babysitting on a Saturday night? The costs depend upon the alternative ways you would have spent your time in those three circumstances. When do you make the right consumer decision? When the choice you make is worth more to you than the opportunity (alternative) you sacrificed. So, if you buy a new Bruce Springsteen record for $8 because you value the new record more than two old $4 albums by Bruce Springsteen, you made the right decision. On the other hand, if you bought the new album, but really preferred to buy two older ones at the $4 price, you made the wrong decision. Two people will consider those same alternatives, make different choices consistent with their values, and both will have made the "right" decision.

Economic Generalizations

1) Scarcity forces consumers to choose among alternatives to gain satisfaction.

2) By purchasing products and services, consumers encourage suppliers to produce products and services consistent with consumer desires.

3) Price is a rationing device used to allocate products and services to consumers who are willing to pay the most for them (have the greatest demand for them).

4) Price measures the relative scarcity of different products and services in the marketplace.

Major Concepts

Interdependence	Scarcity	Incentives
Resources	Consumers	Demand
Choice	Suppliers	
Price	Product	
Public goods	Service	

Lecture Narrative

How happy are we? Do we have a good job? Do we look right in the clothes we wear and the homes we live in? The answers to these questions and many others depend in large part on what other people do and say. We depend upon others to influence and reinforce our ideas of happiness, pleasure and rewards.

But we also depend on other people in a more basic way. All of us, rich or poor, get a lot of help from other people. That's pretty obvious, even though it's often forgotten. For instance, just to get a simple pencil, thousands of people must help by cutting trees, making steel, growing rubber trees, making glue, mining graphite, selling pencils, and so on and on.

How is this cooperation organized in a society such as ours with its

incredible specialization and division of labor? To answer this question, first you must realize that the resources available to us as we make our economizing choices depend extensively upon the economizing choices that others make.

Exampl I

Other examples are more complex than this. They demonstrate how dependent we are upon other people. Ask yourself why someone even has the opportunity to choose between a Springsteen and a Ronstadt record. How are the resources used in these records made available? Musical records are not "natural resources." They are resources made available through the efforts of people. They are the products of choices by people. Which people? An endless list of people, when one starts to think about it: the record store clerk; the employees of the recording company; the performers; the people who manufacture vinyl from which records are made; those whose activities made the resources available from which the vinyl factory and machinery was produced; the truck drivers who moved all these necessary resources into the proper places at the appropriate times; all the people without whose cooperation trucks would not exist; and so on and on in every direction. What caused them all to cooperate in just the right manner so the records were available to you?

They chose to cooperate to satisfy their own wants; this cooperation promised to deliver more satisfaction than any other choice available to them. Suppliers economize just as consumers do: They use their available resources trying to achieve the greatest possible satisfaction of their own wants.

What holds the system together? What prompts people to supply what others want, at the right times, in the right places, and in the right quantities? To best see how it all works, consider what happens if people change their minds about what they want. What will induce suppliers to change their behavior in turn? Why won't suppliers go on doing whatever they're accustomed to doing?

Example III

Let's think about an imaginary example. What would happen if millions of

dedicated golfers gave the game up in order to play tennis? To begin with, these consumers would now want fewer golf balls and more tennis balls. But how can suppliers be persuaded to cut production of golf balls and expand production of tennis balls? The answer is that as consumers purchase more tennis balls and fewer golf balls, suppliers end up with many unsold golf balls and a shortage of tennis balls. This shortage represents missed opportunities to sell tennis balls. Suppliers must change their ways and start offering fewer golf balls and more tennis balls. They will want to do this because unsold golf balls aren't as valuable a resource to suppliers as tennis balls that sell quickly.

Think about it. What are the real costs (opportunity costs) to the owner of a sporting goods store of stocking golf balls at a time when customers want tennis balls instead? What are the valuable opportunities foregone? When a customer is turned away, it is a profitable sale foregone. Even if the salesperson says, "We're all out of tennis balls, but we've got some more ordered, and we expect them next week," the sale is probably lost. The customer will most likely go elsewhere rather than return next week. In addition, those unsold golf balls represent money and shelf space tied up in products with no Value to the supplier. That money and shelf space could be used for alternative goods which add to the store owner's wealth.**

Example IV

What are some other consequences of consumers' changing from golf to tennis? You would expect to see emptier golf courses and more crowded tennis

**(Special note to teachers: The claim is not made above that tennis ball prices will rise while golf ball prices will fall in the circumstances described. That is a highly misleading claim at best, albeit one into which economics teachers often rush in their eagerness to talk about prices. The initial result of the change in demand will be excessive and inadequate inventories. Relative prices may or may not change subsequently; but if they do, it will be in response to actions triggered by these inventory changes. Meanwhile, excessive and inadequate inventories are themselves an incentive to adjust behavior, because they represent less than optimal economizing of scarce resources.)

courts. Does that mean suppliers of golf courses will close them down while tennis court suppliers will build more tennis courts?

The answer will depend on who the suppliers are and whether the crowded courts and empty links change their incentives. Suppose the city government, through its parks department, owns and operates the available tennis courts and golf courses. Will deserted courses and crowded courts persuade the city officials to shift resources out of one into the other? That answer may depend on the political parties in power and how these changes influence their satisfaction. How long will it take before it is in the interest of the "suppliers" to supply a different mix of courts and courses? Do suppliers adjust more quickly when they can make more money responding quickly to shifting consumer preferences?

There is no single, simple and correct answer to any of those questions, but casual observation suggests some overall trends. Where do we see more overcrowding and underuse of a resource? Is it when resources are privately supplied, or when they are supplied by government agencies? Consider your experience. Do you expect to wait in line longer at the post office or at the supermarket? Is railroad passenger service or airplane service under used?

Let's go back to the original example of golf and tennis. What will be the effects of crowded tennis courts and deserted golf courses where these resources are owned and provided by an individual owner or company?

In the case of golf courses, the owners will quickly realize their land (a resource) is bringing in less income than before. They'll look for ways to use the land to obtain more income from it. What are their alternatives? They may sell it to a land developer who offers a high price because he knows consumers are eager to purchase houses in the area. Such economizing choices by resource owners (golf course owners and real estate developers) will result in less land for golfers and more land for households.

In the case of tennis courts, private tennis club owners will find they can

raise their rates and still keep the courts full. They may consider expanding the facilities. They'll try to buy land (bid the resource away from other uses) for more courts, thereby making more land available for tennis players and less for other purposes.

Many different prices help these changes to occur. For example, the higher prices that private tennis club owners charge when tennis players begin to crowd the courts have two effects. In the first place, they persuade tennis buffs to play less often than they otherwise would. Secondly, higher prices induce club owners to provide more facilities than they otherwise would.

Economizing consumers purchase less of any good when the price they must pay for it rises. Listen to a typical conversation from a tennis player. "When I started playing tennis, I used to play twice a week. But the hourly rate has gone up, and I've cut back. Can't afford to play that much." What does "can't afford" mean? It means that the consumer expects to obtain more satisfaction from spending the court fee on something other than tennis. Notice that this economizing effect reduces crowding on the courts. It rations the courts to the players who value playing tennis most highly.

Economizing suppliers produce more of any good when the price they can obtain for it rises. Listen to a typical conversation from a tennis club owner. "Wish I owned ten more courts. I could keep them all in use. What we've done is hire more people, though. Now we open up at six in the morning every day and stay open until midnight." Notice that there are even ways to supply more to consumers without actually "constructing" more courts. Higher prices for the product or service make it worthwhile for the owner to pay people overtime wages, which means the courts can be available longer.

To summarize: In this economic system, when people's wants change or when other conditions change, incentives also change. Consumers and suppliers then begin adjusting their behavior to take account of the new incentives they're confronting. That's basically how we organize cooperation in our specialized and interdependent economy.

LECTURE III

Criteria For Choices

Economic Generalizations

1) Price is a rationing device. It allocates a product to consumers who place the highest money value on, or have the greatest demand for, that product.
2) Price is an incentive device. It indicates the relative value of supplying different products/services in the marketplace.
3) By purchasing products/services, consumers try to increase their personal satisfaction.
4) Consumers individually determine what gives them satisfaction in the marketplace. Satisfaction varies from individual to individual.
5) The criteria for judging satisfaction change as people age, change lifestyles, and assume different responsibilities.

Major Concepts

Price
Products
Services
Consumers
Satisfaction
Criteria

Lecture Narrative - Individual Differences

People come in an infinite variety—different sizes, shapes, colors and, most important, abilities and preferences. You and I are as different in our interests as we are in our ability to run a mile, fix a car, read a book or endure rock and roll music. Another interesting fact is that we don't stay the same as individuals. People at 16 who enjoyed "cruising" the main drag every Friday night may, at age 30, enjoy fishing, at age 40, watching their sons or

daughters play basketball, and at age 50, spending the evening square dancing or disco dancing. People's abilities and preferences change over time, as they become older, gain new experience, acquire different skills or assume additional responsibilities. "Satisfaction" is consequently achieved by people in endlessly varying ways. And satisfaction is the criterion consumers use to make their choices.

Example I

Consider this problem. No one enjoys being cold. How do people achieve the satisfaction of being warm? A moment of reflection will remind you how much people differ. Older people may more often turn up the thermostat, because they have a less effective internal circulatory system than younger people. Some people rarely go outside when it's cold; but others will refuse to give up the satisfaction of observing the changing seasons. Others buy fur coats while some people substitute fast walking for warmer clothes. Many people have chosen to insulate their houses, install electric heaters, or put in wood-burning stoves; while others, fearing the side-effects of insulation, the danger of electric heaters, or the air pollution from burning wood, may simply choose to put on more clothes while they're indoors. All these consequences are the result of people's economizing activities.

Needs

Often people speak of the needs they have for particular things such as food, clothing and shelter. Using needs as a criterion for guiding choices is not very helpful. People using an economic way of thinking are skeptical about the things we "need" because statements about people's "needs" tend to overlook the differences among people and the many different ways in which people can economize. The word "needs" implies that all people require the same basic goods. That assumption is very misleading.

Example II

For example, everyone "needs" food to survive; but now the economizing questions begin. How much food is needed? What kind of food is needed and what consitutes survival? For most of us, "survival" means eating far more food and more high quality food than mere good health requires. A diet that satisfied all nutritional requirements could be purchased for far less than what most Americans spend on food. Our food costs and calorie intake would be lower if people stayed with a nutritionally minimum diet. But people don't just eat for nutrition; they also eat because they enjoy eating. And what food people enjoy varies tremendously.

Let's try another example. If the nation gets into another "oil crises," should the government start rationing gasoline? Before answering, remember that gasoline has always been rationed. The usual system is to ration it exclusively to those people willing to pay the price. As a consequence, some people get more than others. Is that a defect in the rationing system? In a "crisis," should everyone be entitled to the same amount of gasoline? Would such an allocation fit our "needs" better?

That position is hard to defend. "Equal amounts for everyone" is even hard to define. What is "the same amount of gasoline for everybody?" How much gasoline is needed? Is it seven times as much for a family of seven as for a person living alone? Is it the same amount per licensed driver or per person over sixteen? Or is it the same amount per automobile? What about people who use their cars in their jobs? Shouldn't they get more gasoline than those who don't or people who have convenient bus service available? How about businesses? Should they get all the gasoline they want? What about recreational vehicles, motor boats, and private airplanes? Should we allocate less gasoline to someone who owns a motorcycle and can get around on it, so that

more gasoline is available for very timid people who only feel safe in a large car? Maybe no one under the age of 19 should be allowed to use gasoline because "they don't <u>really</u> need it."

<u>Example III</u>

These examples crystallize the problem. It is impossible to allocate gasoline on the basis of people's needs because we can't assess accurately and fairly what people's needs are.

A method which by-passes this problem is to ration gasoline (or any product/service) according to people's ability and willingness to pay for it. Some people may object to this plan because it doesn't seem fair that rich people would have all the gasoline they want while the poor must go without.

That situation may be unfair, but does it describe what would happen if the Middle East suppliers cut back oil supplies by 20%? Would the rich take everything while the poor got nothing if prices were allowed to rise? Actually, <u>everyone</u> tends to <u>purchase less</u> at high prices than at lower prices. Both rich and poor would cut back on their purchases of gasoline because of the opportunity cost involved. Money paid to cover higher gasoline prices cannot be used for other valued opportunities. Neither rich nor poor people desire to give up those opportunities, so they will reduce gasoline purchases. Most scarce goods, from lobsters through concert tickets to automobiles, are rationed by willingness and ability to pay. But the rich don't take <u>all</u> the lobsters or theater tickets or automobiles.

The standard system used for distributing scarce goods in this changing economic environment is to let the wants of consumers and the offers of suppliers adjust to one another by changing the money prices.

This price system works more or less automatically. When demand (what consumers are willing and able to pay) increases relative to supply (what

producers are willing and able to provide), competition among consumers tends to bid prices up. As a result, consumers economize more on the now scarcer goods, while suppliers receive additional incentive to do what they can to make more of these products available. When supply increases relative to demand, competition among sellers eager to reduce their inventories tends to lower prices. As a consequence, economizing consumers will tend to use more of the good. Think of the price of electronic games before and after Christmas. The price is high before Christmas and usually falls after Christmas as stores hold sales to move excess merchandise. Can you see how the relationship between supply and demand has changed?

The price system pays attention to the enormous variation in people's wants and abilities. A sales representative whose income depends on driving will make the decision to pay a very high price for gasoline rather than sacrifice sales and income. On the other hand, someone who drives because it is a minor convenience will choose to sacrifice that convenience rather than pay so much money for gasoline that they are forced to give up more valuable satisfaction. In this way, convenience drivers, responding to the price system of rationing, make more gasoline available for drivers who must use their cars for work.

Still you may not be satisfied. What about "non-essential" uses of gasoline? Shouldn't these uses be banned in an "oil crisis?" Well, that returns us to the old problem of definition. What is a "non-essential?" use of gasoline? Maybe gasoline should not be sold to boats for water skiing. Many would insist that it is less important to supply fuel to water-skiers than to supply it to trucking companies. That makes sense only until we start thinking about it more carefully. What if the truck is transporting water skis from the factory to the retail store?! Maybe fuel should only be allocated to "essential" goods. But the word "essential" is like the word "needs." Both

words tend to obscure the vast possibilities for economizing when an increased scarcity problem arises. Remember that goods in themselves cannot be essential or non-essential. What counts are the uses to which people put the goods. In practice, a non-essential use turns out too often to be any use to which the person speaking doesn't want gasoline put.

A non-essential use usually means whatever you, as an individual, think gasoline should not be used for. Unfortunately, other individuals, with different tastes and values, will not agree with your decision. Pricing solves this problem by letting each individual decide what is essential to them and what "non-essential" uses to forego.

Rationing products/services according to price also provides a comparative message to consumers as they decide how to use their scarce resources. The money price that must be paid to obtain a good is a measure of that good's scarcity relative to all other goods.

Look at it from the consumer's point of view. The different prices on all items in a grocery store are important information to shoppers who must choose what goods they want to consumer. They consult their own taste and what they must give up to satisfy those tastes, as indicated by the prices of various goods. If a pound of steak is twice the price of a pound of fish, the shopper knows that the steak must yield twice as much satisfaction as the fish or it shouldn't be purchased.

Prices are important messages to suppliers also as they decide what products to produce and how to produce them. For example, if the price of wood rises relative to the price of steel, suppliers of bookcases will produce fewer wood bookcases and more metal ones.

If consumers decide that they much prefer wood bookcases to metal ones, they'll continue to buy wood bookcases even at a higher price. In this way

they'll bid wood away from other uses. Their willingness to pay a higher price for the sake of the greater satisfaction afforded by a wood bookcase will mean a higher price must be paid for wood by suppliers of other wooden products. These other suppliers will consequently economize in their use of wood.

In short, the price system transmits information about relative scarcities throughout the economy. In turn, that information encourages people to act in ways that pay attention to other people's preferences. As goods become more scarce, higher prices persuade consumers to purchase less and leave more for others. Higher prices on goods that have become more scarce simultaneously tempt suppliers to enrich themselves by making more available, if they can, and thereby to reduce the scarcity. Prices allow consumers and producers to recognize which products are most scarce, most valued, and to adjust voluntarily to the scarcity problem.

LECTURE IV

Economic Uncertainty: How It Influences Consumer Choices

Economic Generalizations

1) Consumers avoid impulse-buying when the cost of making a mistake is greater than the cost of acquiring information.
2) Consumers buy on impulse when the cost of making a purchasing mistake is less than the cost of acquiring information.
3) Acquiring information on a purchasable product or service requires the use of scarce resources and involves an opportunity cost.
4) Information specialists provide valuable services to consumers if they enable consumers to use their scarce resources more economically.
5) Advertising is one device used by suppliers to provide consumers with information about products and services.

Major Concepts

Uncertainty	Scarce Resources	Advertising
Cost of Information	Opportunity Cost	
Impulse Buying	Middle-man (go-between, information specialist, broker)	

Lecture Narrative

So far, this analysis of consumer choices has been rather tidy. You have learned that everyone economizes and that in the process of making choices, you should identify the alternatives, weigh them according to your individual criteria, and then do what is most satisfying to you. Seems easy. So why do people have so many problems? Why do people become over-extended or why do businesses file for bankruptcy? Are people stupid or ill-informed or both? Actually, another answer gives us more insight. The answer is uncertainty. We never know exactly what will happen in the future and that uncertainty can cause

problems.

It is difficult to overestimate the complications that uncertainty introduces into the consumer's world. Economizing means sacrificing one valued opportunity in the expectation of achieving more satisfaction in another way, giving up one thing for another. But, in an uncertain world, expectations often turn out to be mistaken. Now, suddenly, every decision is a risk and consumers spend much of their time and energy (scarce resources) trying to control this risk.

Consider some of these examples. Have they every happened to you? A person decides to buy a Bruce Springsteen record, takes it home, plays it, and is terribly disappointed, realizing that a Linda Ronstadt record would be more enjoyable.

A student signs up for an elective course (Economics or Physics), and then discovers he/she is learning very little or working harder than expected. Consequently, the student wishes he/she had chosen auto mechanics instead.

You choose to spend Friday evening on a movie date, but the date and the movie are boring. Now, you wish you had made a different decision.

Lawyers conclude in the middle of their careers that engineering would have paid much better or provided more personal job satisfaction.

A couple buys a house to live in and decides within a short time that it is a very unpleasant place to live.

Mistakes upset our satisfaction and make us wary consumers. Because mistakes reduce satisfaction, people try to avoid them by acquiring more or better information before they make their choices. While there are many ways to acquire information, most of them share a commmon characteristic. They are costly.

For example, record buyers attend concerts, read reviews, talk to friends,

or even listen to the records they're thinking of buying before they make their purchases. Acquiring information by these methods all have costs.

Concerts cost time and money. Time spent reading reviews, talking with friends and listening to records is a scarce resource. How many scarce resources should be used to acquire information is an important question for consumers to answer. Sometimes it makes sense to acquire more information before choosing. And sometimes it does not. Consider some of the costs involved in acquiring information.

Before choosing an elective course, students talk to counselors and to other students. But, since people differ and circumstances constantly change, the information gathered in this way may not be reliable. The most reliable information about a course can be obtained by auditing it, but this is a very costly way to acquire information. The information may not be worth the cost of the time and effort.

People considering purchasing a house usually spend time and energy acquiring information prior to making a decision. Most likely, they will go through the house carefully several times and may even pay a knowledgeable builder to inspect the house for them. These information-acquiring activities are costly in time and money. Why do they do it? Because the cost of making a mistake is very great when purchasing a house. That's why people usually don't buy houses "on impulse." It is quite different when buying some clothing or a record, because the cost of a mistake is much less.

How much information should we acquire before making decisions? There's no right way to answer that question because it varies from individual to individual and circumstance to circumstance. You can waste a lot of time acquiring useless information. Unfortunately, consumers usually don't know that until it's too late, and they've wasted their time acquiring useless

information.

The problem is illutrated by this question: How much time should you spend searching for a $10 bill that you've lost? No time at all if you aren't going to find it. But what if you are unsure of finding? What do you do? If you have no idea where it was lost, you will not search very long. Why? Because your expectation is that you will not find it. But what if you lost it in your bedroom? Then you will search longer because you believe you have an excellent chance of eventually finding it.

Another way to gain valuable information is to acquire it from other people. Some people specialize in providing information to consumers. It's economical to use their services if we believe that the information they offer will enable us to use our own scarce resources more economically.

Example

People buying clothes usually don't know exactly what they want. They look around at the clothing stores to see what is on display and, by learning what's available, get a better idea of what they want. They're acquiring valuable information. The store owner specializes in providing that kind of information. Store owners don't maintain large inventories out of kindness--they do it to attract potential customers.

Store owners offer other kinds of information, too. "Will this shrink?" you ask the store owner. "No, it won't," is the answer. Can you trust that answer? What if the owner is trying to cheat you by giving out false information? Well, is this likely to be the case? Not usually. Dissatisfied customers tend to bring items back and demand a refund. Moreover, store owners don't want potential customers to think they deceive customers. That's bad for their business. So they do tend to tell the truth.

Remember, sellers typically have more accurate information about the

quality of goods than buyers have. Remember also that sellers are more likely to tell the truth when they're interested in future business. That suggests a good rule for consumers to heed: Have more confidence in the information provided by sellers who plan to stay in business at that location for a long time.

People who specialize in putting buyers and sellers in contact with one another are called "middlemen" or "brokers." These people provide a service to buyers and sellers by telling buyers what sellers have to offer and telling sellers what buyers are interested in purchasing. A clothing store owner is just such a broker between people who design and produce clothing and consumers who finally wear it.

Another kind of broker is the real estate agent. Real estate agents serve house sellers by finding people who are interested in buying that house, and they serve buyers by finding homes for them to purchase. Real estate agents find people interested in the particular homes that sellers wish to sell. The agents know about houses for sale all throughout the area and, by providing this information to buyers, enable them to get more satisfaction for their money than the buyers could obtain by acting on their own. As a result, a real estate agent may enable sellers to obtain higher prices and buyers to obtain lower prices. Of course, if the right seller and the right buyer had found each other on their own, they could have saved the real estate agent's fee. Such an occurrence is unlikely though, which is why most people use real estate agents when buying or selling houses. Good information is hard to acquire.

Advertising

Is advertising information? Does it provide valuable information? The answer is that some advertising provides valuable information, and some undoubtedly does not.

Consider some of the advertising that is obviously considered valuable by consumers, because they choose to use it. People look in the Yellow Pages. They consult the movie advertisements in the newspaper. They read announcements of sales. This information helps them get more satisfaction for their time and money.

On occasion, advertising can be valuable information to some people and a distracting nuisance to others. A highway billboard which mars the view for one driver tells another about a good spot to have lunch. Remember, people differ and react differently to the same circumstances.

Truth In Advertising

Should advertising tell "the whole truth?" Everyone agrees that advertisers ought not deliberately deceive people. But do we really want to insist that advertising tell the whole truth? Won't that often be more than we want to know? Who wants to know absolutely everything about a product prior to purchasing it? Do you want to know whether your Bruce Springsteen record will charm a cobra? Whether your designer jeans would be suitable material for a parachute? Information of that sort could save your life, under the right circumstances. But those circumstances are so unlikely to arise that most of us will agree we don't want to be bothered by information on the adequacy of records for calming cobras or of jeans for making parachutes. Too much information overwhelms us, and we end up more confused than informed. Moreover, there will inevitably be important facts about some goods that the seller or advertiser doesn't know about, either.

Valuable information is a scarce good for sellers as well as for buyers. Sellers would prefer to supply goods that will fulfill all the expectations of buyers, because they know that satisfied customers mean future business. But sellers can't know all the qualities of the goods they sell or all the

expectations of buyers. They don't have infallible crystal balls to see the future any more than consumers do.

Once again, however, you'll want to notice how people (suppliers and consumers) differ. Some stores, such as prestigious clothing stores, acquire careful information about the goods they sell, reveal what they know to shoppers, take time to ascertain the tastes and preferences of potential customers, and offer full refunds in the event of dissatisfaction. Does that enable customers to economize more effectively? It does for some, but not for all. Those services are costly to the stores, and are only likely to be provided if their cost can be recovered through higher prices. Some consumers are willing to pay for those services, and so they receive them. Others don't find them worth the cost and so shop somewhere else, where prices are lower.

To sum it all up: We can economize more effectively when we have better information. But information itself is a scarce good. As a result, we all make mistakes at times, mistakes that we could have avoided had we gotten more information. But we didn't get the information because we decided it just wasn't worth our while. If we decided, on the other hand, never to act until we had enough information to be sure we weren't making a mistake, we would almost never act. We wouldn't get much done or find very much satisfaction in life.

What we can do as consumers and what we in fact do is use the information provided by suppliers. Some suppliers are information-providing specialists. And almost all suppliers provide some kind of information about their products, whether through advertising, carrying inventories, or offering advice. Of course, this information won't be altogether reliable. But that's the way the world is. Uncertainty is an inescapable fact of life.

LECTURE V

Economic Generalizations

1) Economic satisfaction is individually determined by consumers and varies from individual to individual.

2) One person's criteria for wise consumer purchases are not always appropriate for judging the actions of other people.

3) Consumer protection laws and enforcement procedures impose costs and benefits on suppliers and consumers, but the costs and benefits aren't always what we think they are.

Economic Concepts

Costs	Benefits
Shared costs	Cost/benefit comparisons Unintended consequences

Lecture Narrative

Consumer protection and improvements in consumer products are important issues in today's world. As citizens, we insist that consumers not be treated in a fraudulent manner or sold defective, dangerous products. It seems unquestionable that these goals should be pursued, but even here, the economic way of thinking, the economizing perspective, should warn you that things are not as easy or clear-cut as they seem.

Almost anything can be improved. Almost everyone could use more protection. Those are not the economic issues. The important question here is whether the benefits from the improvement or protections are worth the costs of improvement or protection. Most high school basketball players would prefer to be an inch taller, but how many of them are willing to spend ten hours on the torture "rack" being stretched by mechanical devices until their joints were more loose and bodies slightly elongated? Very few would see the benefits worth

the cost.

So it is with consumer decisions. Consumers pay close attention to costs and benefits when they pay the full costs of the improvement. For example, we may buy improved stereo equipment but only when we expect the added listening pleasures to be worth more than the additional costs. We informally weigh the costs and benefits before we make our decision and rarely buy the very best system available. For most people, the cost is greater than the benefit received. Under special conditions our attitude changes on the subject. We insist strenuously on some improvements when we expect someone else to pay the costs for the benefits we intend to receive.

Example I

Here's a simple example close to home. When parents pay the full cost of improving their children's wardrobe, the children are more likely to conclude that they "need" a better sweater than when the children themselves must pay.

Example II

Adults act in the same manner. If every local neighborhood received the "improved police protection" its residents demand, the total city budget for police protection would be far in excess of what those neighborhoods are willing to pay in taxes. When we state our wants through the political process, we usually assume that all taxpayers will share the cost so that we will only have to bear a tiny portion. Sensing that the cost to ourselves is very low, we insist that we "need" much more than we're currently receiving.

It isn't just selfishness operating here. Sometimes we're just badly informed. We call for improvements because we don't realize that these improvements will mean bearing increased future costs. The result is often "improvements" that don't really improve the situation for anybody because the benefits did not outweigh the costs.

Let's consider a series of consumer choices where the cost/benefit questions are most obvious.

Would it be an improvement if physicians never prescribed surgery in cases where the surgery might have worse side effects than the condition it cured? Not necessarily. We just can't know for certain about side effects. True, we could learn about some possible side effects through additional testing. But tests are a cost to the patient. They cost in money, inconvenience, discomfort and even danger associated with the testing procedure. Suddenly an issue that seemed easy to resolve, becomes a more complex problem as we carefully assess the costs and the benefits.

Do we want manufacturers of rotary blade lawnmowers to make them so operators cannot get their hand in contact with the moving blade no matter what foolish thing they do? Would this be an improvement in the product? The cost of manufacturing would rise and mowers would become far more expensive. The mowers would probably also run less well because the improvements would hinder operation and make them bulkier and harder to use. Now, how do we decide if the improvements were worth the added cost to consumers? We can't do it by only paying attention to the benefits from the so-called improvements. The question we should ask is whether consumers value those benefits enough to give up the required money and ease of operation required to obtain them.

Should the Food and Drug Administration make certain that all prescription drugs are safe before they can be sold in the U.S.? To determine safety, tests are required. Additional tests reduce the risk of suffering or death from unanticipated side effects. But additional tests also involve higher costs and keep the drug out of use for a long time, thereby increasing the amount of suffering and pain that occurs among patients who would be helped by the drug when it becomes available. Consider the consequences to people who are allergic

to bee stings if a drug was available to prevent such an allergic reaction. Consider the consequences to them if the drug cannot be sold because complete testing has not been finished. Who is most likely to favor early availability of this drug--someone allergic to bee stings or people who have no reaction to bee stings?

Because people differ enormously in what they know, in what they prefer, in what they can do, and in so many other respects, it's extremely difficult for anyone, no matter how wise and benevolent, to make the best decisions for everyone.

Consumer Protection Laws

The 1970 Poison Prevention Packaging Act required that potentially dangerous drugs be sold in containers with "child-proof" caps. Children were intended to benefit from this protection. Did this law impose a significant new cost on anyone? In analyzing this case, we find the cost of making the child-proof caps is negligible. However, the cost to an elderly patient with arthritic fingers of getting the cap off may be quite high. This person may evade the law by shifting the drugs to another container with a lid that could be easily removed. But is this an evasion of the purpose of the law? Is it an evasion if there are no children living in the elderly person's home? Difficult questions to answer. Each new consumer law solution will tend to bring with it new questions or problems to wrestle with. For instance, should the Consumer Product Safety Commission permit reversible medicine caps, so that households with children can have a child-proof cap while elderly people can enjoy the convenience of twist-off caps? Or should the Commission prohibit reversible caps on the grounds that everyone will use the twist-off cap and thereby endanger more children? Is there a single best answer to that question? The problems seem endless. Should a hundred sensible people be penalized with

child-proof caps to prevent one foolish person from doing harm?

Each protection issue raises important questions about costs, benefits, choices and imposed solutions.

Should all mattress manufacturers be required to construct mattresses from flame-resistant material so that a lighted cigarette laid on the mattress will go out without igniting the mattress? This will impose costs, in the form of more expensive mattresses, upon non-smokers while they receive no benefits from the action. Is the cost worthwhile as long as it saves some lives each year? But if that question is answered yes, couldn't we save even more lives at lower cost by prohibiting all smoking in bed? Certainly, although such a law would be almost impossible to enforce. The solution we have chosen is to impose costs on many safety-conscious people to protect the lives of a few other people who don't pay enough attention to safety.

If we require all owners of apartment buildings to install smoke alarms, will all apartment dwellers be protected by smoke alarms? It's not that simple. Some tenants will disconnect the alarms so they won't go off in response to heavy cooking or tobacco smoke. Is that foolish of them? Don't such people value their own lives? Actually, they are deciding that they prefer to accept a slight additional risk to their lives in order to cook smokey dishes or have a party with the windows closed. They are economizing and making choices based on their own individual criteria. Laws don't always change behavior in the ways that we hoped for when we passed them.

A law can require that manufacturers describe the dangers associated with the use of a power tool and suggest the best procedures for safe operation. But is that enough? Some people won't read the safety rules. Should people who want to buy a power saw, therefore, not be allowed to leave the store with it until they have passed some kind of exam, such as the one people must take to

get a driver's license? This is possible, of course; but it is highly unlikely that consumers would accept this type of restriction on their behavior.

A hard fact of life may be that people who behave foolishly cannot be fully protected by law or by other people against the consequences of their own foolishness. Remember, too, that people don't agree on what is foolhardy or dangerous. People differ. To some people, it is always absolutely suicidal to hurtle down an icy mountain with feet strapped to long, thin boards. Others love to ski. Many consider it intolerably foolish to ride a motorcycle without a helmet; others think that riding a motorcycle under any circumstances is too dangerous; but some find the excitement, the convenience, and perhaps the economy of the motorcycle well worth the added danger. Some people won't fly in airplanes, even though statistics show most trips are more dangerous by automobile. Some people even believe that studying a course of this type is a total waste of time. They will act on the basis of their own opinion, even if it is a foolish, ignorant one.

To summarize: A change is not an improvement if its costs are greater than its benefits. Keep in mind that the consequences of change, which we can never accurately predict, will affect people in very different ways. That's why laws and regulations, which are across-the-board rules, can never be an adequate substitute for the good sense and intelligent choices of individual consumers.